

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Israel

Food Service - Hotel Restaurant Institutional

HRI FOOD SERVICE SECTOR 2018

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Report Highlights:

The Israeli Hotel Restaurant Institutional (HRI) sector is generally stable. Sales in hotels and resorts are growing as international tourism recovers from a slowdown, due to security issues. The restaurant sector is evolving. Full service restaurants are facing financial strains due to high fixed costs. As per institutional sales, the sales are strong and steady, as a few large firms vie for control of a limited market.

Market Fact Sheet: Israel

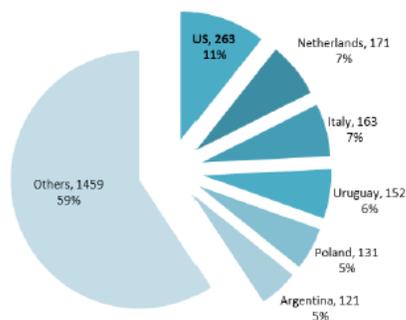
Executive Summary

Israel is a technologically advanced, market-oriented economy. The Israeli Central Bureau of Statistics (CBS) calculated Israel's GDP at US\$351 billion in 2017, a real GDP growth of 3.5 percent (percent change at 2015 prices). Consumers are sophisticated and enjoy cosmopolitan food tastes. Currently, 16.7 percent of household expenditures are dedicated to food products. Producers, food processors, wholesalers, retailers, food service operators, and food importers are all part of a well-developed agribusiness sector, contributing to a domestic scenario that is competitive and dynamic. In 2017, imports of agricultural products reached US\$6.1 billion.

Imports of Consumer-Oriented Products

Israel's limited land and water resources preclude a high level of agricultural self-sufficiency; this affects local production costs and consumer prices. The country posts sizeable trade deficits in food and agricultural products, importing large volumes of feed grains and sizable volumes of consumer oriented products. According to CBS in 2016, Israel's import of consumer-oriented agriculture¹ stood at US\$2.5 billion. Approximately 11 percent of imports were sourced from the United States.

Imports of Consumer-Oriented Agriculture (US\$ million)



Food Service- Hotel Restaurant Institutional

The Israeli Hotel, Restaurant, and Institutional (HRI) food service sector includes approximately 14,000 consumer foodservice outlets, 407 hotels, with a total of around 52,867 rooms, and the institutional sector. In 2017, the sales in consumer foodservice grew by 0.8 percent in constant prices and reached a total of US\$5.96 billion. While the total revenue of the hotel sector was \$3.09 billion, a 9.5 percent increase from the previous year. The Israel Hotel Association estimates that 40 percent of total revenues are a result of food and beverage sales. Reportedly the Israeli hotel sector's food sales reached an estimated \$1.24 billion in 2017.

Quick Facts CY 2017

Top Food Service Trends:

- Demand for healthier dishes
- Demand for plant-based dishes
- Demand for high quality, higher end food products
- Shift from full-service restaurants towards fast food outlets

Market Overview (U.S. billion) 2017

Food and Agricultural Products* Exports	\$2.12
Food and Agricultural Products* Imports	\$6.1
Consumer Foodservice	\$5.96

*Harmonized Tariff Schedule Chapters 1-24

Top Consumer Foodservice Chains

McDonald, Aroma Israel (Shefa Franchisers Ltd) and Reshet Cafe Cafe Ltd.

Top Institutional Catering Companies

ISS Catering Services Ltd, Schultz, Shefa Sodexo

Top Hotel Chains

Fattal Hotels, Isrotel Hotel Management, Dan Hotels

GDP/Population (CBS)

Population (millions): 8.79

GDP (billions USD): \$351

GDP per capita (USD): \$39,932

Strengths/Weaknesses/Opportunities/Challenges

Strengths	Weaknesses
<ul style="list-style-type: none"> -U.S. products are perceived as high quality products; -The Israeli consumer values US products. -Many U.S. suppliers are kosher certified. 	<ul style="list-style-type: none"> -Cost of shipping from the U.S. is high; -Israel's standards tend to follow EU standards and not U.S. standards; -U.S. exporters lack knowledge of the Israeli market and are unaware of new opportunities.
Opportunities	Challenges
<ul style="list-style-type: none"> -Free trade agreement between the U.S. and Israel; -The Israeli Ministry of Economy is determined to open the market for more imports in order to lower the cost of living; -Israel has the potential to be a bridge to the Palestinian Authority with its rapidly growing population. 	<ul style="list-style-type: none"> -Low-cost competition from Eastern Europe, Turkey, former Soviet Union, South America, and Asia; -Israel is a small market

Data and Information Sources: Israeli Central Bureau of Statistics, Storenex, Euromonitor, Bank of Israel, FAS Tel Aviv office research, UN Comtrade Database

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¹ Note: Consumer Oriented Agriculture - BICO-HS6

SECTION I. MARKET SUMMARY

The Israeli Hotel Restaurant Institutional (HRI) sector is generally stable. Sales in hotels and resorts are growing as international tourism recovers from a slowdown, due to security issues. The restaurant sector is evolving. Full service restaurants are facing financial strains due to high fixed costs. As a result, there is a shift from full service restaurants towards fast food outlets, as restaurateurs seek to minimize their risk. In addition, the rapid construction of shopping centers encourages growth in foodservice located in retail centers. As for institutional sales, the sales are strong and steady, as a few large firms vie for control of a limited market.

The economy's growth over the past decade significantly impacted Israeli consumers' disposable income, which led to an increase in spending on dining out. According to Israel's Central Bureau of Statistics latest figures, in 2015, families spent on average \$195 monthly on food prepared outside of the home (i.e., at restaurants, fast food, coffee shops, etc.).

Key Demand Drivers

- Economic growth drives retail food and beverage sales
- Growth in tourism creates opportunities for hotels and restaurants
- Full service restaurants face high fixed costs and a rising minimum wages, creating opportunities for unique, new outlets and vendors
- Social networking (i.e., Facebook, Grouper/ Groupon) and the expansion of internet sales. Purchasing groups, with daily discount offers, continue to boost full-service restaurant sales
- Healthier eating is gaining even greater traction among the HRI sector
- Mergers and acquisitions in the HRI sector leading to expanded product offerings

Table 1: Advantages and Challenge for U.S. Exporters to Israel

Advantages	Challenges
Israel's economy is stable, GDP is expected to continue to grow, and consumers are prosperous	Israel is a small market
U.S.-Israel Free Trade Agreement trade preferences	Potential for regional security to impact consumer behavior
The standard of living in Israel is expanding rapidly, increasing the demand for away-from-home dining	Low-cost competition from Eastern Europe, the former Soviet Union, Turkey, and the Asia is fierce
The majority of the HRI sector buys only kosher food products and many U.S. food products are already kosher certified	For most markets, a U.S. kosher certification is sufficient though some supermarkets and institutional customers demand also a local Israeli certification.
Strong consumer interest in new food products	

SECTION II: A ROAD MAP FOR MARKET ENTRY

Entry Strategy

U.S. exporters should review [FAS Tel Aviv policy and market reports](#) and private sector analyses. After identifying a market opportunity, FAS Tel Aviv recommends that the U.S. exporter contact an importer or agent with experience in the sector. Exporters are advised to research options for distribution and sales channels thoroughly. Visits by U.S. exporters to meet with Israeli importers and investors strengthen confidence with local partners. The Israeli agent or importer will be responsible for facilitating custom clearance procedures and advising the exporter on product specific regulations, such as labeling, packaging, import duties, and sanitary and phytosanitary regulations. Additionally, the local partner will have knowledge of tariff rates and will be able to apply for quotas for the relevant products if necessary.

Most Israeli food distributors acquire imported products through an importer or an agent. Specialized importers and agents are often also distributors who have warehouse and transportation operations. However, some large HRI chains have their own purchasing or importing division to handle food imports directly. Suppliers from the United States should initially contact the purchasing or importing divisions of these large hotel and restaurants chains. The [Federation of Israeli Chamber of Commerce](#) or FAS Tel Aviv can assist on identifying the correct point of contact.

Increasingly local players are opting for the franchise model to expand firm presence, profits, and bargaining power. Franchising is widely used in the Israeli consumer food service by both foreign and local players. The majority of franchisees of major international brands are corporate entities that often run other name brand outlets as well. Franchisees of Israeli brands tend to be smaller individual franchise holders. Foreign consumer food service operators normally enter the in Israeli market through franchise agreements. Major global brand owners such as Domino's Pizza Inc., McDonald's Corp., and Burger King Holdings Inc., operate in Israel through local franchisees.

Israel does not have specific regulations applicable exclusively to foreign companies. Nevertheless, there are important cultural and religious factors which foreign firms must consider, including kosher and Sabbath regulations. Sources indicate that Starbucks and Dunkin' Donuts have met with limited success in Israel due to differences in consumer tastes and pricing issues. Local ambiance is extremely important. An establishment's management and product variety must be tailored to blend in with the local environment and consumer preferences.

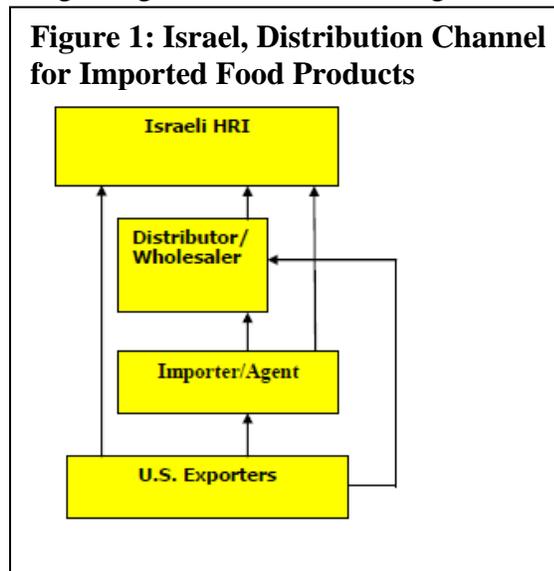
Additional Means of Entry:

- Direct marketing (phone and video calls, emails, and meetings)
- Direct marketing through the mail with brochures and corporate press kits
- Israeli food companies often attend the main European food shows (i.e., ANUGA, SIAL)
- [ISRAfood](#) is Israel's biggest food and HRI show. Takes place in Tel-Aviv each year at the end of November or early December
- Social networking and the use of internet marketing are gaining greater acceptance by local importers and HRI buyers
- Franchising and manufacturing under licensing agreements

Market Structure

Large hotel chains have central purchasing offices. These offices would normally purchase from Israeli importers or local wholesalers. Exporters interested in gaining market share with large chains should consider approaching hotel purchasing offices their Israeli partner. Smaller hotel chains and independent hotels purchase directly from the market or from local wholesalers. In these cases, exporters will have to place additional marketing resources in clearly defining the chain whereby the customer can access the imported U.S.-origin goods.

Similarly, large restaurant chains may also have centralized purchasing offices. As with the U.S. exporters and their Israeli partners should approach these offices in order to market imported U.S. goods. Smaller restaurants, bars cafes will likely purchase goods directly from wholesalers or on the local market. Smaller restaurants account for around 70 percent of total food service outlets. Most restaurants purchase beverages through distributors.



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The Israeli Defense Forces, police, and prison service have their own purchasing sections. All three issue public tenders to purchase food products. Israeli law, however, gives priority to Israeli firms in tender awards. Exporters interested in participating in public tenders should seek further information from the tendering agency.

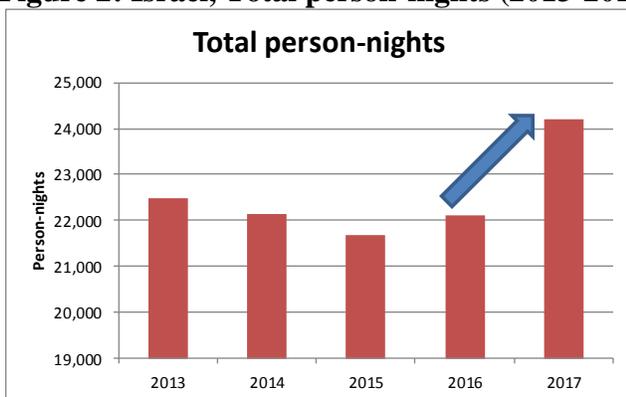
Sub-Sector Profiles

Hotels and Resorts

The Israeli hotel sector is comprised of 407 hotels, with around 52,867 rooms. In 2017, the total revenue of the hotel sector was \$3.09 billion (NIS 11.111 billion), a 9.5 percent increase in current prices from the previous year which stood at \$2.64 billion (NIS 10.149 billion)¹. Tourism has recovered from a recent slowdown, and is now showing growth. Tourism is expected to continue rising, as long as the security situation remains stable. The Israeli Central Bureau of Statistics reports that 2.9 million tourists visited Israel in 2016 while in 2017 there were 3.6 million, a 24 percent increase. Though, the Israeli hotel sector experienced only a ten percent increase in total person-nights. The United States, Russia, and France were the top three sources of tourists to Israel, together representing around 39 percent of total arrivals. Average hotel rates in Israel are above \$200 per night, making it an expensive destination in comparison to other Mediterranean countries.

¹ Average annual exchange rate according to the Bank of Israel:
2016 USD= 3.8406 NIS
2017 USD= 3.5998NIS

Figure 2: Israel, Total person-nights (2013-2017)



Source: Israel Central Bureau of Statistics, FAS office research.

Of all Israeli destinations, the Red Sea city of Eilat registered the most occupancy in 2017; representing 25 percent of all hotel stays nationwide. Jerusalem and Tel Aviv, making up 19 and 14 percent respectively of hotel stays, followed Eilat. FAS Tel Aviv found that the resorts near Eilat cater more to domestic tourists than international ones.

The Israel Hotel Association estimated that 40 percent of total revenues are a result of

food and beverage sales. Reportedly, the Israeli hotel sector's food sales reached an estimated \$1.24 billion in 2017. Note that U.S. hotel chains operating in Israel generally assume around 30 percent of their revenues to be derived from food and beverage sales.

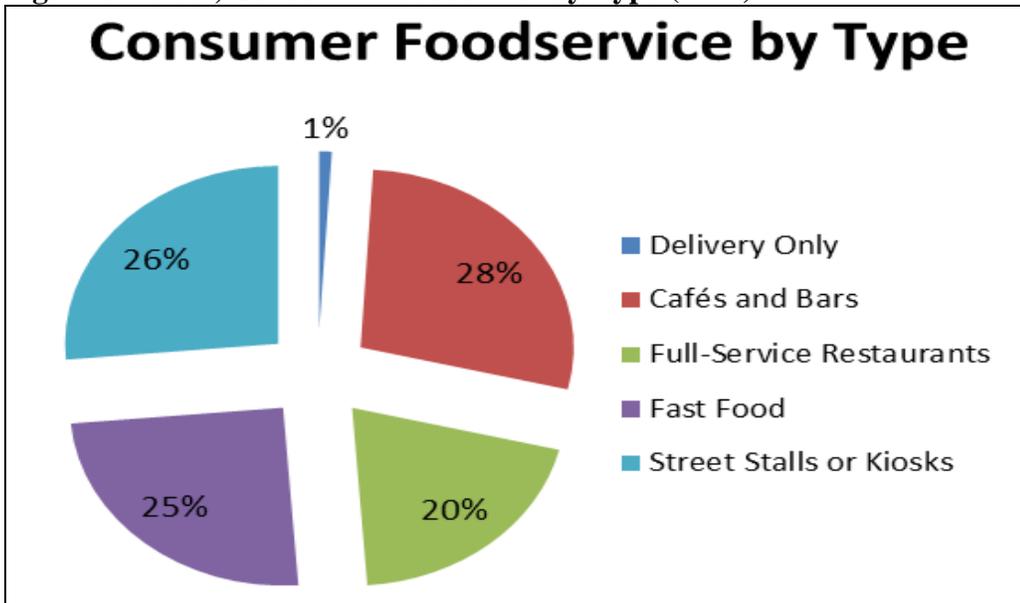
Restaurants

Tel Aviv is the hub of restaurant and culinary trends in Israel. In Israel there are approximately 14,000 businesses that belong to consumer foodservice sales sector, which includes restaurants, cafés, bars, and street vendors, 15 percent of which are located in lodging facilities. In 2017, consumer foodservice sales increased by 0.8 percent in constant prices, reaching about \$5.96 billion (NIS 21.471 billion).

Israeli restaurants face high-fixed costs with tight margins. This is especially true of high-end, standalone restaurants with high locale rent costs. The restaurant business is considered by many a risky business, with high expenses such as rent, labor wages and food costs. Furthermore, many operators are struggling to remain profitable in the long term. Thus, many players are expected to enter and exit the market in the upcoming years. As a result of this situation, growth in full-service restaurants is slow, registering only five percent growth from 2012 to 2017. During the same period growth of outlets with low-fixed costs, such as delivery services and street stalls, was higher. Delivery only outlets increased in number by 43 percent from 2012 to 2017, while street stalls increased by 12 percent. This trend is expected to continue as restaurateurs continue to struggle with high input costs.

The Israeli restaurant sector is still dominated by independently owned operations, accounting for over 80 percent of the total. Local and international chains, however, are growing in number and popularity. Between 2012 and 2017, chain restaurants grew from only 14 percent of outlets to 19 percent.

Figure 3: Israel, Consumer Foodservice by Type (2017)



Source: Euromonitor, FAS office research.

The largest consumer foodservice chains in terms of sales are: McDonald, Aroma Israel (Shefa Franchisers Ltd) and Reshet Cafe Cafe Ltd.

According to the Israeli Restaurant Association, 80 percent of the restaurants opened in Israel close within their first five years of business. While the association attributed the decrease in revenue to the tense security situation, restaurants continue to struggle today even though the security situation improved. High operational and fixed costs, especially in high-end restaurants, make it difficult for restaurants to maintain positive margins. As such, the sector is opening more small locales offering high quality street food.

Current Restaurant Trends:

- Consumers are seeking a low-cost alternative, value for money
- Shift away from traditional restaurants toward delivery and vendor-style outlets
- Slow growth in traditional standalone restaurants, high growth in delivery and street stalls
- Growth in chain restaurants as compared to independently owned operation

Institutional

Institutional catering services are used by public institutions, government agencies, high-tech industry, the Israel Defense Forces (IDF), and the insurance and financial sectors among others. The industry is characterized by fierce competition, which is reflected by low pricing and tight margins. Nevertheless, the industry is relatively stable, and consists mainly of medium and large companies that have been operating in this sector for many years. In recent years some schools started to supply hot meals to the students through catering companies.

The Israeli Defense Force (IDF), the Israeli police, and the Israeli prison service are a significant component of the HRI food service sector and have their own central purchasing offices. The latest published data indicates that institutional sector's food sales stood at around \$710 million in 2013.

The largest institutional catering companies in terms of sales are: ISS Catering Services Ltd, Schultz, Shefa Sodexo, Zer-mahadanim, Nir Ezion, Tamam, Moav and Tefen Quality Food Ltd.

Table 2: Israel, Value of the HRI Food Service Sales (2013-17)

Subsector	2013	2014	2015	2016	2017
Hotels and Resorts*	\$1.04 billion	\$1.04 billion	\$1.1 billion	\$1.06 billion	\$1.24 billion
Restaurants**	\$5.5 billion	\$5.5 billion	\$5.2 billion	\$5.3 billion	\$5.96 billion ²
Institutional***	\$710 million	N/A	N/A	N/A	N/A

*Source: Based on 40 percent of the annual revenue published by the Israeli Central Bureau of Statistics

**Source: Euromonitor

***Source: BDI-COFACE Israel

Company Profiles & Top Food Service Companies

Israel's top hotel chains, restaurants and institutional catering companies, have been ranked by two separate entities, BDi Code and DUN'S 100. See [BDi Code's Hotel Ranking](#) , [BDi Code's Restaurants and Catering Ranking](#) and [DUN'S 100 Catering Ranking](#).

SECTION III: COMPETITION

Local and European Union suppliers remain U.S. exporters' main competitors. The U.S. industry's main advantage is supply reliability, product quality, and the recognition of its high food safety standards. On the other hand, high shipping costs, adoption of EU standards, import duties, and import licensing requirements remain major market barriers for U.S.-origin products. Exporters need to be competitive in their pricing or present products of excellent quality.

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

Israel is a net food importer. It is a good market for U.S. food exports, such as dried fruits, nuts, fresh apples and pears, cheese, and other food products. Demand for healthy or natural foods is increasing, such as organic food. Niche products that target a specific health issue like diabetes or celiac disease (gluten-free food) are experiencing growth in demand, as well as vegetarian and vegan products. An additional growing food category is high quality, higher end food products.

Table 3: United States Products Presence

In the market and have good sales potential	Not present in significant quantities, but which have good sales potential	Not present because they face significant barriers
<ul style="list-style-type: none"> • Nuts • Processed fruit • Dairy products • Alcohol • Grape juice • Pears and apples • Sauces 	<ul style="list-style-type: none"> • Chilled kosher beef • Frozen cherries and berries • Premium dessert products such as premium chocolate bars, cookies, ice cream, and cheese • Frozen kosher appetizers • Vegan and vegetarian products • Organic food • Gluten free products 	<ul style="list-style-type: none"> • Non-kosher meats are not permitted for importation • Kosher barriers on Crustaceans and Mollusks. They are not kosher and most supermarkets will not sell them as well as the major hotels and restaurants • Banana, fresh cherries and citrus are not allowed for importation due to phytosanitary restrictions

² Note: 0.8 percent grow in constant prices

Table 4: Top Consumer-Oriented Products Imported from the World

HS Code	Product	Total Imports (\$ millions) 2014	Total Imports (\$ millions) 2015	Total Imports (\$ millions) 2016
020230	Frozen Beef (Boneless)	\$391	\$403	\$476
210690	Food Preps, Nesoi	\$232	\$216	\$205
180690	Chocolate, Nesoi	\$84	\$87	\$89
090121	Coffee, Roasted	\$50	\$48	\$56
020130	Fresh Beef (Boneless)	\$0	\$13	\$52
210111	Coffee Extracts	\$59	\$49	\$50
170490	Sugar Confectionery	\$48	\$46	\$50
220300	Beer	\$36	\$37	\$48
190532	Waffles And Wafers	\$39	\$38	\$40

Table 5: Top Consumer-Oriented Products Imported from the United States

HS Code	Product	Total Imports (\$ millions) 2014	Total Imports (\$ millions) 2015	Total Imports (\$ millions) 2016
210690	Food Preps, Nesoi	\$37	\$35	\$36
080232	Walnuts, No Shell	\$34	\$38	\$28
080212	Almonds, No Shell	\$19	\$28	\$24
080251	Pistachios, In Shell	\$30	\$28	\$21
080290	Nuts Edible, Nesoi	\$15	\$15	\$17
200893	Cranberries, Prepared or preserved	\$4	\$5	\$8
080810	Apples, Fresh	\$12	\$7	\$8
190410	Cereal Foods Roast	\$9	\$10	\$7
210390	Sauces Nesoi	\$ 6	\$7	\$7

Note:

1. Data Source: United Nations Commodity Trade Statistics, United Nations Statistics Division
2. Nesoi- Not Elsewhere Specified or Indicated

SECTION VI: KEY CONTACTS AND FURTHER INFORMATION

Links to government sources

Israel Tax Authority - [Customs Tariff Book](#)

Israel Central Bureau of Statistics (CBS) - [Exports and Imports](#)

The Standard Institution of Israel (SII) – [SII Shop](#)

Ministry of Economy and Industry- [Foreign Trade Administration](#) (FTA)

[Ministry of Agriculture](#)

Ministry of Health- [Food Control Administration](#): Telephone: +972-3-6270100

For questions or comments regarding this report, or assistance exporting to Israel, please contact the Foreign Agricultural Service in Tel Aviv. Importer listings are available from the Foreign Agricultural Service for use by U.S. exporters of U.S. food and beverage products.

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