



**Higher School of Economics**

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**How COVID-19 Situation Influenced HoReCa Industry, and What Outcomes it Brought  
to Consumer Behavior and Industry in Kazakhstan**

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## **Abstract**

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## **Introduction**

Year of 2020 started with terrifying, unprecedented event in modern history of humanity - Pandemic, caused by COVID-19 came out to the main part of our Planet. This pandemic turned upside down everything we used to in usual life: office work transformed to remote work, schools closed for undefined period and even daily habits like going to market, having lunch at restaurant came to naught. As everything mentioned before were part of economic system in every part of Earth, it's directly caused some decline trends, also had impact on how whole spheres modernized and acquired to something new: would it be hospitality, delivery or regular retail industries. For instance, restaurants and cafes began to actively use delivery services and even create their own platforms for online orders; hotels have started using artificial intelligence for contactless customer service; even supermarkets have implemented their own delivery.

According to the data of World Bank, Global GDP Growth for 2020 beat the historical minimum and sharply decreased to -3.6%, even economic crisis of 2008, which was traditionally considered as the worst crisis after The Great Depression did not have such a low indicators.

Every sphere went into the deep recession, especially these times turned out to be the hardest for serving type of businesses. One of the most injured sectors is HoReCa. HoReCa came out of Hotel, Restaurants Catering, and the core business of this sector is granting services when people out of their homes. However, for period of COVID-19 being out of home became an exception.

According to the survey conducted by the National Restaurant Association, 17% of restaurants in US closed during COVID-19, European countries also felt COVID-19 effect in all industries, for example total contribution of travel and tourism to GDP in Europe felt down more than 2 times. Overall HoReCa industries showed declining trend in every country, it had been severely affected on countries like Montenegro, Croatia and Thailand, mainly focused on tourism.

COVID-19 having many negatives sides, however had some positive points. Pandemic, which lasting for more than a year accelerated process of launching new apps, creating new systems and reevaluating established concepts.

In Kazakhstan the government introduced state of emergency in March of 2020 and till this day didn't fully lift restrictions. Restrictions in our country also mainly concerned to the movements of people. Data provided by adviser of Catering Association of Kazakhstan shows that 60% of catering industry stopped their work and 20% fully closed their businesses. And also according to data this situation changed habits of catering business, as many of others businesses.

Our research will be dedicated to the topic of HoReCa industries in Kazakhstan during COVID-19. Paper will explore this topic in deeper and wider context, how it impacted and what kind of changes took place from the moment when Coronavirus entered to our lives.

The object of study was the HoReCa industries in Kazakhstan: how quickly and skillfully this sector has adapted to the new format, what are the positive aspects, whether there were difficulties, whether this has affected demand, and what is the future of this.

The main subject of this study was consumer behavior. Since it is the formation of new habits among consumers that generates demand, which, in turn, affects not only the company but also, in general, the country's economy.

A lot of scientific literature, news sources, articles, and articles were studied for the study. At some points, the opinions of people and experts differ, but the relevance of the topic is confirmed in each of them.

### **Research hypothesis**

COVID-19 and overall coronavirus pandemic period brought changes in Consumer behavior of overall HoReCa industry. Consumers adopted new lifestyle and habits.

Restaurants and Cafes digitalized services in their businesses.

### **Research goal**

The goal of this research is to understand how digitalization has affected the behavior of consumers of HoReCa sector in Kazakhstan, whether customers and HoReCa sector are ready services to digitalization, if so, to what extent, and if not, why.

### **Research objectives**

1. To determine what are the main concerns that HoReCa sector have for post-pandemic period.
2. To determine what governmental measures do HoReCa sector aim to see implanted.
3. To understand the level of readiness to digitalization in HoReCa sector.

To do this, we conducted qualitative and quantitative research methods among the population of our country, which helped to identify the disadvantages and advantages of the implementation of digitalization processes.

## **Consumer Behavior**

Currently, almost all spheres of life are associated with the consumption of goods and services. A modern person uses a variety of products every day, while giving preference to certain brands and trends. Thus, by purchasing a product, a person acts as a consumer, being a key link in the business. Knowledge of the peculiarities of consumer behavior in the market, its motivation and factors that attract attention and affect loyalty is the basis for building a successful business strategy and brand communications. That is why consumer behavior is the object of close attention from marketers studying various changes, trends and consumer needs.

According to P.Kotler (2014), 'Consumers make many buying decisions every day, and the buying decision is the focal point of the marketer's effort. Most large companies research consumer buying decisions in much they buy, when they buy, and why they buy. Marketers can study actual consumer purchases to find out what they buy, where, and how much.' (Principles of marketing, p. 159)

While Walters (1974) defines consumer behavior as: '... the process whereby individuals decide whether, what, when, where, how, and from whom to purchase goods and services.' (Consumer behavior : theory and practice, p. 7)

Currently, in large megacities, in particular in the city of Almaty and Nur-Sultan, there is a huge variety of cafes and restaurants that differ in price category, cuisine offered, interior features and many other factors. A consumer who wants to have a snack or spend time with friends in a café or restaurant is faced with a huge selection of establishments offered. Such a variety of HoReCa market certainly creates fierce competition between players, and knowledge of consumer behavior is necessary to maintain competitiveness.

The relevance of this topic is confirmed by the fact that in the 21<sup>st</sup> century there are a huge number of players in almost all spheres of goods and services, which creates high competition and struggle for the consumer. The most important determinant of brand success is the degree of customer satisfaction with the product or service offered. That is why the orientation to the needs of the consumer, in particular in the market of cafes and restaurants, is an important principle of marketing activities.

### **The market of cafes and restaurants in Kazakhstan**

The market of cafes and restaurants is one of the youngest and most promising in Kazakhstan at the moment. This is due to several factors discussed below.

The restaurant business is an integral part of the development of social and cultural services and tourism in the world, a direction of development and currently one of the most attractive markets in this area. Therefore, the restaurant market today requires such approaches as the development of concepts and forms of Service.

In recent decades, international tourism has made a huge breakthrough, becoming one of the largest and most profitable sectors of the world economy. The business accounts for 7% of the total investment volume, 5% of all tax revenues and a third of the World Trade in services.

It provides employment for more than 250 million people, that is, every eighth employee in the world.

Its share is growing by about 20% annually. However, in the Kazakhstan, this profession is developing unevenly, without taking into account the differentiation of the needs of individuals, and this creates an uneven distribution of restaurants in the local market and many other related problems. Fierce competition in the cities of Nur-Sultan and Almaty and high rates of real estate rental make it difficult to operate in this market. And in the regions, the weak side of this industry is a fairly low level of service culture. In addition, the coronavirus pandemic has a significant negative impact on the development of this industry.

Due to quarantine restrictions introduced since March 2020, the public catering sector has been in a deep crisis. The industry is going through difficult times. Given the periodic increase in the number of COVID-19 virus infections, it is not known today when institutions will return to full-fledged work.

At that time, the population of Kazakhstan, whose solvency and mentality began to change, began to adapt to Western consumer standards, and now they spend their money on 'food from the outside'. On average, residents of the Republic of Kazakhstan spent about 3-4% of their own funds on this type of activity in the period from 2016 to 2019. Eating lunch and dinner outside has



become commonplace for 20% of the middle-income population of Kazakhstan. It is observed that young people aged 25-34 often go to cafes, and older people aged 35 and older with above-average incomes often go to restaurants. Thus, the culture of public catering is slowly but surely entering the way of life of Kazakhstanis.

In recent years, the country has seen a rapid development of the public catering sector. The dynamic development of the public catering sector was influenced by the fact that a significant share of consumers of public catering services was made up of residents and guests of the city. It is difficult to imagine modern life without cozy cafes or restaurants. Many businesses employees of organizations use the services of restaurants, cafes, fast-food cafes and buffets on a daily basis. At the same time, the number of people choosing restaurants of different levels as venues for banquets for any special events has increased from year to year.

At the same time, it should be noted that the level of competition is growing, and consumer preferences are rapidly changing. This determines the trends in the development of restaurant activities and the need to form a radical change in the marketing policy of restaurant enterprises.

The popularity of food formats varies in different cities. In large cities, the popularity of coffee shops or bars is growing, while in other cities, more democratic segments continue to grow, which are no longer popular formats in Nur-Sultan and Almaty – for example, pizzeria.

The leader in the number and quality of restaurants in the restaurant business in the Republic of Kazakhstan is the city of Almaty. According to a study conducted by «РосИнтер», there are 1,356 public catering enterprises in Almaty, including 354 restaurants.

According to the concepts of 2gis service analysts, which analyzed the public catering industry in Nur-Sultan, Almaty, Shymkent, Aktobe and Karaganda, the number of public catering establishments in major cities of Kazakhstan increased by 17.7% in 2019. In particular, there was a rapid increase in the number of sushi bars and coffee shops. In Almaty, the number of points

with soft drinks and coffee increased by 120.8 %. Then the segment-coffee shops and pastry shops – added 62.1% and now covers 428 establishments. The third place in terms of growth is occupied by sushi bars. Now in Almaty there are 65 establishments with sushi and rolls on the menu, this is 51.2% more than at the beginning of 2019. In Nur-Sultan, the format of sushi bars is the leader in dynamics (an increase in points by 74.1 %). A small dynamic was shown by such a Democratic segment as fast food-only 2.7%.

According to the National Bureau of statistics of the agency for Strategic Planning and reform of the Republic of Kazakhstan, from 2010 to 2019, the volume of public catering services in regions and cities of millions of people in the Republic increased by 25%.

### **The market of hotels in Kazakhstan**

The hotel services market is developing despite the crisis situations in the country and the fact that the tourism market is growing slowly and not quite efficiently. In general, the hotel sector is growing and expanding geographical boundaries thanks to the development of business and MICE tourism, as well as the latest pilot projects to lift the visa regime for 40 countries around the world.

The hotel market of Kazakhstan is actively developing, global hotel chains have come to the country, which increase the level of service and set new quality standards. Over the past ten years, the number of hotels and hotels has tripled. The largest number is located in three regions of the country: East Kazakhstan, Almaty and Akmola. On average, hotels in the country are filled only by 20-25% depending on the season, the most filled hotels in the country are in West Kazakhstan and Atyrau regions, and in Nur-Sultan.

According to STR (Smith Travel Research) reports, the average annual occupancy rate of hotels (Occupancy %) of 4 and 5 star categories in Kazakhstan was at the level of 26.2%. This reflects a 49.8% drop in the number of rooms compared to the level of 2019.

## **Personalization**

Personalization is a crucial part of the customers experience almost in all type of business. Its purpose is making better experience of customers and answering their needs.

In our digital age, the term "personalization" has become overused when it comes to consumer experience. In the hospitality business, which is based on the idea of delivering excellent personal service to customers, it is critical that the same degree of 'personal service' offered by well-trained employees is reproduced by a hotel's digital identity.

As technology advances, businesses in HoReCa sector will be able to take a much more distinctive approach online, allowing them to collect and analyze huge quantities of visitor data in order to personalize their offerings.

With the advancement of artificial intelligence (AI), digital technology has progressed to the point that visitors' digital interactions may be tailored to them precisely.

AI can develop targeted and relevant sales and marketing material aimed at specific individuals or groups and create a user booking journey tailored to individual needs or preferences by tracking and analyzing customer behavior and trends across multiple hotel properties, based on geography, guest history, booking preferences, interactions on site, conversations, and more.

From pre-booking advertisements, offers, and incentives, to the booking system itself, and afterwards to continuous marketing output and 'bring-back offers,' whether through emails or other means, personalization must be used throughout the sales and marketing journey.

The HoReCa sector has a bright future, at least for those companies who are prepared to embrace digitization. Deloitte's 2019 Travel and Hospitality Industry Outlook emphasizes this point, citing "digital innovation" as one of the major drivers of recent record growth.

## **Internet penetration in Kazakhstan**

The Internet officially appeared in the Soviet Union in 1991. Initially, the whole country had only one "su" domain, but in September 1994, the "kz" domain established. Kazakhstani users began to connect to the Internet in large numbers considerably later. The Internet speed was just 28.8 Kbps at first, but after two years, it had grown 2.5 times.

The year 2000 was pivotal in the growth of the Internet in Kazakhstan. According to the International Telecommunication Union<sup>6</sup> (ITU) (2020), after commencing with 0.67 percent of Internet users, the number of individuals with access to the network grew quickly, nearly tripling by 2002. When the mobile Internet first appeared in Kazakhstan in 2008, it was a major turning point for the country's internet. This year, the proportion has increased by 7%, boosting it to 11%. In 2012, Kazakhstan had a mobile Internet penetration rate of 120 percent, putting it in fourth position among CIS nations on this basis.

As the Internet grew in popularity, so did the use of smartphones in Kazakhstan. According to The Steppe<sup>7</sup>'s (2019) study, the beginning of the 2010s was a time when an increasing number of consumers opted to switch from traditional push-button phones to touch-sensitive phones.

However the HoReCa sector in Kazakhstan began to take advantage of the Internet literally within 5 years. Hotels have started to introduce an online booking function on their websites or on platforms such as Booking, restaurants and cafes have started to actively use food delivery services.

### **Digitalization in HoReCA industry**