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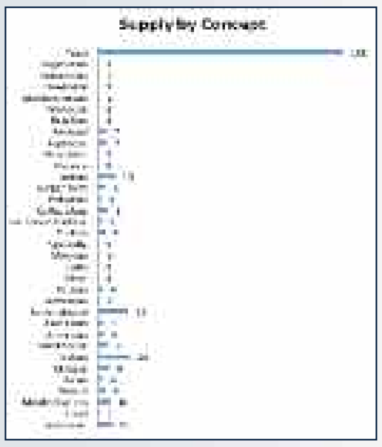
Eye on Jeddah

By Chadi Chidiac from Protocol

Jeddah's Municipality has been working on a development strategy for the city to enhance its image as the pilgrimage and business gateway of the kingdom with additional focus on inbound tourism with international origin since around 90% of the current tourism is domestic.

Development strategies benefits all business sectors directly and indirectly while the Global Food &Beverage revenues were well over $22 trillion in 2013 representing nearly 30 per cent of the world's economy. Few industries are rifer with opportunity than the food and beverage sector, and nowhere this is more evident than in Jeddah where a thriving economy and affluent population combine to make it one of the most attractive untapped markets in the world. With an current population of 5.1 million with an increase of 5 percentage point YOY and more than 5 million visitors every year scoring the highest number of visitors in KSA, Jeddah today is booming, and more precisely its Food & Beverage segment.

Market Trend in Figures



Compiled by PROTOCOL

New concepts with additional choices and changing tastes are all contributing to a boom in Saudi Arabia's F&B industry with restaurants, food outlets, supermarkets and catering companies eagerly expanding and diversifying to meet the high demand among the Kingdom's young and affluent population.

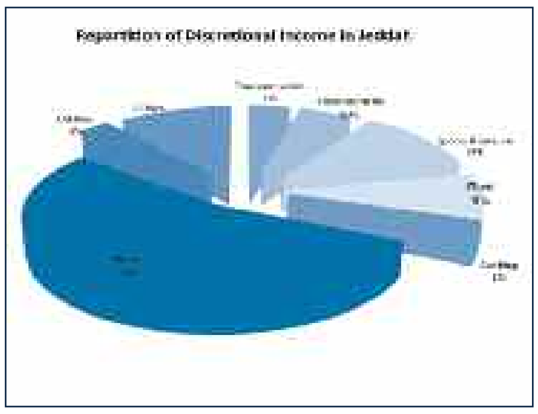
A recent survey made by PROTOCOL in 2013 revealed an exponential growth in the food and beverage brands within the city offering a variety of menus that caters to a diversified clientele. 181 brands were categorized into 33 types of cuisines where Italian and International concepts showed clear presence with 24 and 23 respectively. Other dominating concepts were Indians with 13 brands; Lebanese came after with 11 and Middle Eastern with 10. It is worthy to mention that brands of Lebanese origin are making their marks as well with operators like Semsom, C&G, Café Blanc, Waterlemon, Chopsticks and Salmontini to name a few.

Al Baik, a heavyweight fast food brand of local origin expanding aggressively with more than 35 branches, more than three times his apple to apple competition the KFC while surpassing other global brands such as McDonalds and Pizza Hut. While American style and product themed brand Al Tazaj and Kudu have already achieved ambitious goals for their development, a lot has been done at the level of ethnic cuisine in the last 5 years.

The focus in development began with an excessive focus on Asian and Lebanese cuisines. Nowadays, other types of cuisines are being modernized in their offer taking advantage of the multi ethnic aspect of the city, with brands like Ohio (Italian), Noodles and China Gate (Chinese), Tako Hut (Mexican), Ashwak (Turkish), Sultani (Persian), Royal Taj (Pakistani), Jakarta (Indonesian), Gold Sushi Club (Japanese), wing zone and Ruby Tuesday (American), Casa In (Moroccan), Al Dawar Al Masri (Egyptian) and a lot more proving that ethnic cuisine has a fertile ground.

Discretional Spending Pattern

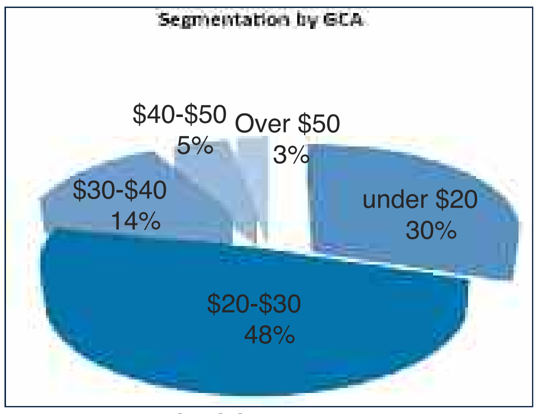
In 2013, Jeddah scored a GDP per capita of $ 31,273. In this city, not only revenues are rapidly increasing, tastes are changing too with a relatively lenient society compared to Riyadh and other regions in the Kingdom. According to a recent survey conducted by PROTOCOL on spending patterns of Jeddah's residents, figures showed a spending rate of 70 percent while restaurants' share stands at 5 percentage points, meaning that in each dollar spent in Jeddah there is five cents going into a restaurant cash register yielding a decent yearly turnover of $4.5 B.



Compiled by PROTOCOL

Jeddah enjoys a young population with more than 55 percent under the age of 35 yielding a more productive society with increase in education and exposure which means more disposable and discretional earnings with more openness to different concepts serving diversified types of food as globalization and urbanization modernize lifestyles and alter spending habits.

Segmentation by Guest Check Average



Compiled by PROTOCOL

The segmentation into five price quotations was derived from the average check that we calculated based on the comparable pricing structure for every outlet. We categorized all average check below $20 as low-end market, between $20 and $30 as mid-low, between $30 and $40 as mid-high, between $40 and $50 as up-scale while over $50 has been categorized as high-end. The highest concentration of brands turned out to be in the low and mid-low market.

Opportunities and Threats

In spite of Mayoralty's order to ban smoking in restaurants in 2010, there are still opportunities and room for growth in the restaurant segment especially that investors are considering this sector as a lucrative line of investment as a mean to diversify their portfolio or simply because it is a fascinating industry of prestige. As a result, the market has become a boiling environment of uncertainty and financial doubts. However, the market is facing challenges. The hike in the real estate market and the construction lagging behind is putting pressure on the lease prices and available outlets for exploitation. Investors are on the waiting list of prime locations with potential.

The scarcity of skilled labor and manpower is putting even more pressure on the food and beverage segment. Indeed, human resources remain an issue for any operation, especially today that the market standards are increasing. Diagnosis shows that the main suffering of the industry is linked to the limited skilled labor which is due to causes like work visas, insufficient training and high number of outlets.

Consensus

A potential solution to this problem might be by seriously enforcing the plan of nationalization of the workforce in spite of some difficulties that might interfere due course its implementation as well as the development of service standards. The dynamism displayed by Saudi brands expansion sheds a ray of optimism when observing the industrious and entrepreneurial Saudis at work.

In Figures

Kuwait Food Company (Americana) has said that a major shareholder, Al Khair National for Stocks and Real Estate Company, was in preliminary talks with "various parties" to sell its stake in Americana. The company, which has a market value of around $4.3 billion, did not identify the parties but stressed that no final agreement had been reached and no binding commitments had been made. Al Khair is owned by the Al-Kharafi family, which controls Americana. Reuters reported in April that the Kharafis, a billionaire merchant family with 66.8 per cent of Americana, had hired investment bank Rothschild to explore a possible sale. Several factors may affect the completion of a deal for Al Khair, Americana said, including a review by the franchisor of franchising contracts granted to Americana; regulatory and legal approvals, including one by the US Department of Justice; and the determination of a fair price for the company. Trade in Americana's shares was suspended in mid-September as news of the talks emerged. Americana said on Tuesday that its shares would resume trading on Wednesday. Saudi Arabia's Savola Group said in August that it had held preliminary talks with one of Americana's major shareholders about a potential deal. It later disclosed it had hired JP Morgan to advise it. A joint offer from private equity firms KKR & Co and CVC Capital Partners and a bid from a third interested party could be lodged by a deadline for second-round bids in mid-October, sources told Reuters peviously.

Herfy Food Services Co., which operates more than 200 burger joints across Saudi Arabia. Styled as a Saudi answer to McDonald's, Herfy touts its attention to "local tastes," featuring menu items such as "chicken rings" – similar to an onion ring, only made of chicken – and the Herfy Frappe. The publicly traded business is valued at about $1,300 Billion.

Burger joint Shake Shack filed for an initial public offering on Monday, a move that the company hopes will help it grow its fleet of restaurants and take a bigger bite out of the booming fast-casual dining market. The chain, founded in 2004 by famed New York restaurateur Danny Meyer, has 63 outposts across the globe and raked in $82 million in revenue in 2013. The company says in its filing with the Securities & Exchange Commission that it is seeking to raise $100 million, though that figure that could change. Shake Shack plans to open 10 new company-operated stores each year starting in 2015, and expects it could grow from 31 company-operated stores to 450 over the long-term, it said in the filing. The company didn't say how long it will take to reach that target.

The world's highest restaurant situated 442 metres up in the sky on the 122nd floor of the world's tallest building Burj Khalifa in Dubai has opened its doors to the public. 'At.mosphere', located on the 122nd floor of 828-metre high Burj Khalifa, however, dining at this height comes for a price. The restaurant accommodates 210 people over a lounge and grills and offers an unparalleled view of the emirate's skyline. Those wanting to book the luxury restaurant's private dining area will be expected to fork out at least USD 176.9 per guest, while afternoon tea comes in at nearly USD 100. For drinks and snacks in the lounge area, guests must spend USD 54.45 per head. Diners keen to get a booking at the world's highest restaurant may need to save up after the Burj Khalifa eatery revealed patrons will be charged a minimum of USD 122 a head. The restaurant, spread over an area of 1,030 square meters, is 92 meter taller than the world's second highest eatery — the revolving 360 Restaurant in Toronto's CN Tower.

The celebrity chef, Wolfgang Puck, is one of the most camera-ready chefs in the business. After getting his start in the U.S. restaurant scene in LA in the 1980s with Spago, the Austrian-born chef is credited with the proliferation of over 100 restaurants including 21 fine-dining concepts. His latest creations is CUT Dubai which is slated for spring.

The Hong Kong-based Langham Hospitality Group will be present in Dubai in 2015, it will not only open its first establishment in the Middle East, but also the company's first resort in what it's calling a "global collection". The 323-room resort will provide all guests with outdoor terraces and inspiring seascapes of the Persian Gulf, along with a 13,000 square foot recreational facility including a pool, kids club and the Chuan Spa with 26 treatment rooms. The Palm Court, modelled after The Langham in London where the tradition of afternoon tea was born, will serve as The Langham's culinary centrepiece and a pleasant reminder of the hotel's rich heritage. Other dining options will include a waterfront seafood restaurant and an Arabic-Italian fusion café.

Hard Rock International - owner of one of the world's most iconic and recognized brands - along with Abu Dhabi Financial Group (ADFG), a renowned multi-billion dollar alternative investment firm headquartered in Abu Dhabi, and Sheffield Holdings, a leading developer in the United Arab Emirates, announce Hard Rock Hotel Dubai Marina. Projected to open in mid-2015 and to be managed by Hard Rock International, the hotel will be housed in the exciting Marina 101 development set within the highly sought after Dubai Marina neighborhood. Boasting 101 floors, Marina 101 will be the second tallest building in the UAE upon completion. The tower will be divided into three different levels, the first of which is the 281-room Hard Rock Hotel, the collection's first property to open in the Middle East, occupying the first 33 floors. Hard Rock Hotel Dubai Marina will feature a soon to be unveiled club lounge and dining establishment on the 101st floor complemented by the brand's signature world-class entertainment.

Photographies by Riad Chlelala

Latest Projects

Lebanon

PROTOCOL was assigned to develop and execute an extension plan for a beach resort in Tyr. The project included the development of bungalows clusters as well as a new docking pier for yachts and boats. The job also included a cross-departmental restructuring and training.

UAE

PROTOCOL had a remarkable appearance in the Global Restaurant Investment Forum that was held in Dubai from the 16th till the 18th of February 2015. GRIF is a business-oriented event for the restaurant and hospitality community. It is the meeting place for investors, hoteliers, owners, lenders, F&B brands, restaurant concepts, franchisors, franchisees, suppliers and other key industry professionals across the region to gain confidence in the market and share best practices with the industry.

Qatar

PROTOCOL was involved in a JV partnership with a highly recognized Qatari-based company and joined forces to work in synergy in a number of hospitality-related projects in Doha.

Lebanon

PROTOCOL was assigned to diagnose the operations of a highly-recognized pastry shop in Tripoli – The assessment covered all departments pinpointing operational gaps. PROTOCOL presented a full report with operational diagnosis and solutions.

UAE

PROTOCOL was assigned to represent a Lebanese –based franchise entity in Dubai. PROTOCOL also undertook a market study and a SWOT analysis report as well as a site evaluation survey.

Lebanon

PROTOCOL undertook the development and exploitation of a new real estate project in Jounieh bay. The mixed-use project will be fully operational in 2016 with a GLA of around 3,000 square meters and an estimated budget of around $52 million.

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Mr. Paul Z. Diab

STAR GUEST INTERVIEW

7 Minutes with Mr. Paul Z. Diab
Vice President - Operations Golden Tulip MENA

1. Q Tell us about your brand identity and your communication strategy for the Lebanese Market?

A We currently have 5 hotels in Lebanon under the Golden Tulip brand, giving us a strong presence in the Lebanese market, a high exposure and awareness for the brand, maintaining always the brand consistency. With our hotels locations in Lebanon that are potential for business and leisure travelers, in Jiyeh, Aley, Jnah, Hamra and Sodeco, is helping us to develop a strong and compelling strategic communication plan using all possible communication tools online and offline to convey every specific selling points and compete for visibility in a crowded marketplace. Trying to combine packages and promotion between the beach, mountain and city is helping to develop the communication strategy

> "**A** Every location has a different market and clientele"

2. Q What is your segment focus and which clientele are you targeting?

Every location has a different market and clientele, the mountain and beach properties target is mainly GCC, in addition to the Lebanese and the weekend getaway trend that is now popular, while in Beirut we have the majority from Iraq and Syria in addition to GCC and few Europeans, with our presence in the MENA we always promote Lebanon seeking for new markets.

> "We are expecting an increase in occupancy in some cities due to the increasing numbers of international and domestic, business and tourist visitors"

3.Q What are the forecasted figures for the hotel's occupancy ratio by region for the year 2015 and your estimations about your market share?

A We are expecting an increase in occupancy in some cities due to the increasing numbers of international and domestic, business and tourist visitors, such as Dubai occupancy to grow by 4.7% in 2015, Muscat is expected to benefit from a 6.6 % growth, and however KSA growth is expected to be lower

> "Dubai occupancy to grow by 4.7% in 2015 KSA growth is expected to be lower"

> "RevPar and the pace growth varies from a city to another."

4.Q What are your expectations and assumptions for operational KPI for ADR and RevPAR?

A The good news is that the improving economic and travel backdrop partnered with future mega events has fed into improvement in trading fundamentals in major cities, the RevPar and the pace growth varies from a city to another.

In increase by approximately 6% is expected in Dubai, Muscat, Jeddah, Riyadh, Abu Dhabi, while the instability in the rest of the Middle East could provide a negative or positive impact on the growth in these cities

> "**A** Lebanon has one of the well-known hospitality management universities, so finding qualified and skilled labor have never been an issue"

5. Q Is it challenging to find qualified and skilled labor and in which positions?

Lebanon has one of the well-known hospitality management universities, so finding qualified and skilled labor have never been an issue, but the current situation is not helping us to keep the skilled labors in Lebanon, as they always request to relocate to one of our hotels outside Lebanon to build their career with a better salary, having more than 53 hotels in the MENA region is definitely helping us to develop them as we are very confident that Lebanon will rise again and the Lebanese manpower will contribute in shaping the future of hospitality

6. Q Tell us about your development plan for the region on the short and mid-term and do you think That regional turmoil may affect aggressive expansion decisions?

> "**A** The investors are now more careful where they invest and in what for sure, in the hospitality industry we are witnessing a booming in some countries while it is slow in other"

Our 6th hotel in Lebanon will open end of 2015 and is still on time despite all, while we are having 12 hotels to open in 2015 between Kuwait, Qatar, KSA, Bahrain, UAE, Algeria and other hotels. The regional turmoil is not literally affecting the aggressive expansion of Golden Tulip as we cover regions that are affected where we are witnessing delays in projects and in the openings while in other regions the hotel industry is booming and plans are on time.

7. Q Tell us about your outlook and prospects for the regional investment environment in general and for the hospitality industry in particular.

The investors are now more careful where they invest and in what for sure, in the hospitality industry we are witnessing a booming in some countries while it is slow in other, in UAE for example and in preparation for 2020 the number of hotels will double, same goes for Qatar, while the hospitality industry in Saudi Arabia is still soaring being one of the most fastest growing sectors.

8. Q Do you think that outsourcing and subcontracting is a good business model which promotes synergy and in which areas?

A Outsourcing is becoming a trend lately in the hospitality industry whether in restaurants or in hotels, mainly in stewarding and room attendants, as sometimes and due to the rules and regulations of the country and to the nationalities and number of staff required in some departments based on the number of rooms or capacity, such services will be cost effective to the hotel or the restaurant, however its disadvantages are the staff turnover.

Control Labor Costs through Better Scheduling, Not Lower Wages

As noted, one does not control labor cost by keeping salaries and wages low. In fact, operations paying less than the going wage rate in their locale will find it difficult to hire and retain the more productive employees. Think about it. If you felt you were a very good bartender, cook or manager, would you quit your current job and go work for someone who paid you less than you were making? I don't think many of us would work for less. It is not unusual to find low productivity and inefficiency in operations where low wages are paid relative to other operations of its type in the immediate area. This is because a low wage scale will primarily attract marginal employees whose efficiency, work ethic and temperament disqualifies them from getting identical positions in companies paying above-average wages to above-average applicants. The better employees will go where they will be better compensated for their skills and abilities.

A regional Fast-casual diner operator seeking to sell franchises asked PROTOCOL to help him develop a franchisee manual. When we went over his job categories and wage rates we discovered that the highest-paid hourly employees were making only $45.00 to $50.00 per month more than the starting minimum rate. I asked about this and was told that employees quit when they were not given raises, and that did not concern the manager since he could just hire someone else at a lower rate. He believed that paying lower wages was a way to control payroll. About one-third of all employees who leave a job voluntarily, leave for better pay. You may have heard that money cannot be a motivator for increasing productivity. Well, it is probably true that just increasing the wages of an employee will not necessarily mean they will be more productive, but when money is used as a reward for outstanding performance, it can be an effective motivator. There are a number of scheduling methodologies you can use that will reduce your labor costs just by adjusting when you have employees arrive and depart from work. Efficient scheduling must reflect the variations in business volume that occur during the day and even meal period. Your goal is to accomplish the necessary workload with a minimum number of labor hours while maintaining your level of service. Productive employees should be rewarded with pay increases and earn more than average employees. Treat your valuable employees like you do your most valuable customers. Realize that the labor cost per cover and the number of covers per labor hour can be improved only with productive employees. If productive employees are treated no differently from marginally productive ones, there is no benefit to the employee to do more than average for he or she will get the same enumeration either way.

To Measure Productivity, You Need Several Benchmarks

No single measure can be used to evaluate labor productivity; management must employ multiple measures collectively. Management must have a better index of labor productivity and no single measure can efficiently accomplish that. Therefore, additional measures are needed to properly analyze labor costs. The additional information needed is readily available as it is compiled on a daily or weekly basis. These measures are:

- Covers per labor hour
- Labor cost per cover
- Labor cost per labor hour

Total Payroll Cost	$1,400.00	Covers per Labor Hour	(1,500/200) = 7.5
Total Labor Hours	200	Labor Cost per Labor Hour	($1,400/200) = $7
Total Covers Served	1,500	Labor Cost per Cover	($1,400/1,500) = 93 cents

Table 1.1

Where do you start? Each time payroll is processed; total labor hours by job category are tallied. Management will compare actual hours worked to those originally scheduled and look for variances. If hours worked are greater than scheduled hours, they will investigate to determine the job category where the variance occurred.

Employee schedules are determined not by revenue but by customer counts or "covers." The "covers per labor hour" is perhaps the most "inflation-proof" indicator of labor productivity compiled by a foodservice operation because it is not distorted by the way sales are affected by price increases and discounts. Although some drops in customer counts occur in the long run when prices are increased, covers per labor hour remains the most effective indicator of employee productivity. The number of covers per labor hour is calculated for each job category as well as for the entire payroll by dividing total labor hours by the customer count. The "labor cost per labor hour" is another productivity index. It is calculated by dividing total payroll by total labor hours. When calculated by respective employee job categories, one can readily see the wage differentials between jobs. This information can assist management in establishing wage ranges for each job category. The third index of productivity is the "labor cost per cover." This tells us how much labor is used to serve each customer that comes into the operation. The total payroll is divided by the number of customers. Analysis of this index by job category will show a very wide spread between categories like hostess/cashiers, waiters and cooks. The averages in each job category are controlled by the number of employees, the average hourly wages, and the number of hours worked. (Check Table 1.1).

MEGAPROJECTS

Multi- million mixed use project in the Zouk coast line of Lebanon

Local real estate developer SAYFCO Holding has officially launch its first beach resort named Galatea. The project will be located in the Zouk area. "We had been receiving hundreds of requests for a beach resort so we decided to launch the biggest such project in Lebanon," said Chahe Yerevanian, Chairman of SAYFCO. Delivery is expected in four to five years from now.

According to Yerevanian, Zouk is the most demanded area north of Beirut. It is close to Beirut and is not affected by the massive traffic going towards areas like Tabarja. "There are no modern resorts in Zouk. All existing ones are over 30 years old." The project will comprise chalets sized between 50, 75, and 100 square meters, starting at $300,000. It will also include a five-star boutique hotel and Spa with 75 to 100 rooms. "We will appoint a management chain to handle the hotel, but we have not made a decision yet." The project will feature Olympic pools, a water park, a marina and yacht club, a private sandy beach, and children's playgrounds, along with restaurants and shops. The total space of the land reaches 50,000 square meters. SAYFCO also has a license to reclaim another 50,000 square meters from the sea, bringing the project's total space to 100,000 square meters. The built-up area will total 188,000 square meters, including underground parking lots. Yerevanian said that the market value of the project, or its total projected sales, is around $800 million. He said that despite the crisis, he has always believed in the local market, and continues to be willing to invest in it. SAYFCO delivered more than 3,500 residential units in the past three years.

Restaurant costing and ricing seminar

Protocol will be holding a seminar around Restaurants Costing and Pricing Best Practices from the 16th until the 19th of March 2015 at Intercontinental Phoenicia Hotel Beirut. It is a valuable program for all top-notch hospitality professionals looking to maximize Operational understanding and business support for long term profitability.
For all information about our services, projects and all upcoming seminars visit **protocollb.com**

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