Hungry for more?

KPMG 2016 UAE Food & Beverage Report
Offering insight into a leading global F&B market
Hungry for more?
Appetizers
Introduction to the 2016 UAE F&B report by Anurag Bajpai, Partner and Head of Retail for KPMG in the Lower Gulf.

Entrées
We examine the current state of the UAE’s F&B market and investigate how often we eat out, what we eat, and how much we are prepared to pay.

Fusion
We look at customer preferences, including how and why we choose the cuisines and formats we frequent and how consumers react to market forces.

Delicacies
We look at the importance of engaging effectively with consumers. We question how quality service, deals and promotions attract and retain consumers. We also investigate how social media and data and analytics are affecting the sector.

Specialties
We explore how innovation is affecting the UAE’s F&B market, paying particular attention to the growth and popularity of digital (including food apps), healthy eating and food festivals.

Hot bites
We examine some of the challenges F&B operators may have underestimated, including the imminent introduction of VAT, the difficulties of predicting consumer behavior, and how to sustain top line growth.

Desserts
We explain who we questioned - both consumers and industry executives - and highlight the services KPMG provides to F&B clients.

Spices
Our report contains infographics based on consumer and F&B operator responses.

Consumer response

Operator response
In 2015, KPMG released its inaugural UAE Food & Beverage Survey. Our 2016 report builds on last year’s survey, canvassing the views of more than twice as many respondents. We have also looked at the market from an operator’s perspective, focusing on the current state of the market, including opportunities and challenges. To do this, we spoke to leading industry executives representing many of the major brands in the UAE’s food and beverage (F&B) sector.

A key factor in the spectacular growth of the UAE’s F&B market has been a seemingly limitless investment appetite. Indeed, the underlying demographics that make the UAE such a tempting target for both international chains and small start-ups – a highly diverse, growing and relatively young population, rapidly expanding tourism and high levels of affluence - have not changed. The central message of this year’s report is that the market as a whole has remained resilient - despite changing macroeconomic conditions - and that operators are generally more optimistic about the longer term outlook.

This level of general optimism is perhaps most clearly illustrated in the ongoing competition for good locations. Existing operators continue to invest in new locations. Some of these investments are opportunistic and some are defensive – whether to raise entry barriers for prospective new market entrants or to counter slowing same store sales. While Dubai is seen as a larger opportunity, investment into Abu Dhabi and the northern emirates continues. This is having a knock on effect on rents – and therefore costs.
From an individual operator’s perspective, growing competition and changing demographics - in addition to pressure on topline growth and margins - have made the market more difficult. While the market as a whole is growing, carving out and then controlling a part of that market is becoming challenging. As a result, churn in the market will continue.

In addition to market resilience, there are four other broad themes that underpin this report:

– Consumer preferences are reasonably consistent.
– Operators are increasingly aware of the importance of engaging with their customers.
– Innovation - whether in terms of menu enhancements or new ways of understanding consumer preferences - is a differentiator.
– In a market which is bullish in the longer term but less optimistic in the shorter term, there are significant challenges that operators must effectively address.

My thanks to the consumers who completed the online survey and the industry leaders who shared their views on the UAE’s F&B market. I do hope that you find this report insightful and would be delighted to hear your feedback.

Anurag Bajpai
Partner | Head of Retail
KPMG in the Lower Gulf
Entrées

We examine the current state of the UAE’s F&B market and investigate how often we eat out, what we eat, and how much we are prepared to pay.

The UAE is one of the world’s leading F&B markets, with market size measured by Euromonitor at AED52.4 billion in 2015. The market has shown impressive resilience in a challenging environment over the last 12 months. While there is evidence that the UAE’s F&B market has been impacted by changing macroeconomic conditions, the sector continues to benefit from the UAE’s positioning as a major global tourism and retail destination with a diverse mix of cultures and ethnicities.

There are, however, a number of challenges which operators have to contend with. Increasing competition puts pressure on both topline and overheads, most evidently in the form of rising rents.

The UAE’s food & beverage market

Although the overall market outlook may be positive, these are challenging times for F&B businesses. Most operators we spoke to, which includes some of the largest F&B brands in the UAE, have been affected by changes over the last 12 months. Nevertheless, there are good grounds for a more optimistic longer-term outlook. Recent Euromonitor data suggests that growth in revenue between now and 2020 is likely to outstrip growth of outlets by around 30%. Some of this is predicated on continuing strong tourism growth in the UAE in the run up to Expo 2020.
Challenges galore
While there is considerable optimism regarding the longer-term prospects for the sector, the short-term outlook has been dampened by current macroeconomic conditions. Only one in four of the operators we spoke to expect to see improved market conditions in the short term. As the market grows, the UAE in general, and Dubai in particular, continues to attract new players, resulting in increased competition. For individual operators, this means a growing struggle for footfall and revenue. There are also specific issues affecting the sector - including increasing rental costs, the race for space, topline growth, rising food costs and increasing attrition of trained staff. In aggregate, these challenges may force some operators – across cuisines and formats - out of the market.

64% of operators surveyed indicated that same store sales over the last 12 months have either been stagnant or have declined.

Rents are rising.

I am losing some of my best staff.

Finding a good location is getting increasingly difficult.

Food costs are rising but my customers are price-sensitive.

Sustaining topline is not easy.
Reasons to be cheerful
Consumer demand for F&B offerings remains robust – people in the UAE, residents and tourists, like to eat out. Our consumer survey indicated the vast majority of people are eating out at least as much as last year with around one third of our respondents indicating that they are eating out even more frequently.

Lunch and dinner
67% of survey respondents eat dinner out every weekend.
44% of respondents eat lunch out or get a take away – about the same as those who bring a packed lunch from home.

Brunch
66% of respondents have brunch at least once a month.

Five in six respondents are eating out at least as much as last year.

3 out 4 survey respondents order a take away or have food delivered at least once a week.
**More for more**

In addition to strong consumer demand for eating out, our consumer survey also highlighted that a majority of respondents have increased their spend per meal – only one in ten are spending less than last year.

Our respondents are much less likely to cook and eat dinner at home than any other meal. When eating out, average spend is similar to last year with people prepared to spend more when eating in a restaurant than on takeaways. Brunches, something of a UAE tradition, tend to see higher spends and are extremely popular.

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**How has your average spend changed compared to last year?**

- **Spending more:** 9%
- **No change:** 28%
- **Spending less:** 63%

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**How much are you prepared to pay?**

**Brunches**

- <AED50: 12%
- AED51-100: 32%
- AED101-300: 42%
- >AED300: 14%

**Eating out - Dinner**

- <AED50: 26%
- AED51-100: 38%
- AED101-300: 33%
- >AED300: 3%

**Takeaways**

- <AED50: 38%
- AED51-100: 43%
- AED101-300: 18%
- >AED300: 1%
Positive longer-term outlook
Despite short-term challenges, operators are bullish about the sector’s medium to long-term prospects and are preparing for improved market conditions. All the operators we surveyed confirmed that they continue to invest — either by increasing the UAE footprint of their existing brands, or through geographical expansion outside the UAE, or by investing in newer brands, both homegrown and franchises. Operators’ positive longer-term outlook means continued investment and an increasing number of outlets, brands and concepts — all of which are good news for consumers.

Operators might be well advised to take a cautious approach — trying to achieve growth through continually opening new outlets or rapid geographical expansion could be unsustainable. In the longer term, the appeal and the quality of the concept will determine success. Operators need to test, understand and protect the viability of their concepts. In a market characterized by discerning consumers and ever-increasing competition, simply focusing on geographic expansion rather than developing strong brand presence could be counter-productive.

Where are you looking to invest in the medium term?

- **64%** Expand the outlet network for existing franchises and brands
- **36%** Expand into new markets and geographies
- **27%** Invest in new brands and franchises

**Note:** Multiple choice question - therefore, the total does not add to 100%.
RECIPE FOR SUCCESS

**Flavors**
Cuisines and formats that are popular

👍 Quick service and fast casual
👍 Indian, Italian and Arabic
👍 Chicken
👍 Cafés

**Ingredients**
Aspects of the business that separate success from failure

✔ Customer experience matters
✔ Get the concept right
✔ Location is king
✔ Quality counts

**KPMG view**
The UAE’s F&B market, despite issues and challenges, continues to be resilient. Our consumer survey shows that residents are spending more and are eating out as much as last year. The UAE continues to evolve as a tourism destination, attracting more visitors from across the world. The UAE as a whole – and Dubai in particular – has developed a reputation as a ‘go to’ market for owners, operators, chefs and brands. While the overall market is growing, there is increasing competition among brands and outlets. Individual businesses are finding growth more challenging. Many of the operators we have spoken to have not seen same store sales growth this year – and don’t expect this to change in the near term. Consequently, businesses are having to realign their expansion strategies with competitive realities.

We see the medium-term outlook for the sector as positive, particularly as the number of tourists is widely predicted to continue to grow. We expect to see increasing investment in the market in anticipation of medium to long term success. Operators will, however, need to work harder to identify gaps in their market offerings and get the ingredients for success right.
Fusion

We look at customer preferences, including how and why we choose the cuisines and formats we frequent and how consumers react to market forces.

Same again please!
Our consumer survey shows remarkable consistency in the choices of cuisine and format compared to last year. Indian was once again the most preferred cuisine, followed closely by Italian, Lebanese and Chinese.

<table>
<thead>
<tr>
<th>Cuisine</th>
<th>Choice 1</th>
<th>Choice 2</th>
<th>Choice 3</th>
</tr>
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<tbody>
<tr>
<td>Central and Latin American</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Chinese</td>
<td>101</td>
<td>117</td>
<td>54</td>
</tr>
<tr>
<td>Emirati and GCC</td>
<td>44</td>
<td>38</td>
<td>55</td>
</tr>
<tr>
<td>French</td>
<td>47</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>Italian (includes pizza)</td>
<td>235</td>
<td>161</td>
<td>63</td>
</tr>
<tr>
<td>Japanese</td>
<td>80</td>
<td>147</td>
<td>52</td>
</tr>
<tr>
<td>North American (includes burgers)</td>
<td>105</td>
<td>110</td>
<td>23</td>
</tr>
<tr>
<td>Other East Asian</td>
<td>28</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>Other European</td>
<td>84</td>
<td>61</td>
<td>97</td>
</tr>
<tr>
<td>Other Middle Eastern or North African</td>
<td>33</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>Pakistani</td>
<td>18</td>
<td>18</td>
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</tbody>
</table>
Consistent choices

Quick service restaurants (QSRs) and cafés continue to be the most popular formats, suggesting a preference for speed, value for money and a sociable environment. While fine dining is largely kept for special occasions, it continues to be popular with a smaller, select set of respondents. Most market observers have suggested that macroeconomic conditions have had limited impact on this end of the market.
How do you choose a restaurant?

- Food quality and taste: 25%
- Cuisine: 18%
- Ambience: 16%
- Good quality service: 7%
- Variety in the food: 7%
- Location and travel time: 6%
- Enough parking or valet service: 2%
- Value for money: 2%

Quality rules

There is also consistency in the way consumers chose restaurants — once again, consumers rated quality of food and service and their favored cuisine as the key factors determining the choice of restaurants.

Consumers indicated that travel time is not a key consideration when choosing restaurants. Nearly two thirds of survey respondents are willing to travel for more than 20 minutes to get to their choice of restaurant.

Interestingly, while consumers said that price was not the primary driver of restaurant choice, four out of five survey respondents reported that price increases would change eating out behavior. This resonates with the industry executive view that the market has become increasingly price sensitive, with reactions to price increases felt most strongly in the fast food and QSR segments.

How many minutes are you prepared to spend traveling (including parking) when eating out?

- <10 min: 7%
- 10-20 min: 28%
- 20-30 min: 41%
- >30 min: 9%
- Travel time is not important: 15%

How do price increases impact your eating out habits?

- I eat out more: 4%
- Price increases don’t affect my eating habits: 17%
- I am more conscious of what I order: 28%
- I look for coupons, deals and promotions: 17%
- I look for lower-priced restaurants: 15%
- I eat out less frequently: 19%
Adventurous palates?
Similarly, while most respondents said they were willing to experiment with food choices, data from the survey suggests that experimenting is limited to restaurants serving familiar tastes. While 48 percent of our respondents have tried a new restaurant in the last six months, only a quarter of respondents had tried a new cuisine.

An overwhelming 88% of our respondents say they like to experiment with new cuisines and restaurants.

Have you tried a new cuisine or restaurant in the last six months?

KPMG analysis
Our surveys – of both consumers and industry executives – suggest that consumer preferences are reasonably consistent. Preferred cuisines are much the same as last year. Quick service restaurants, cafes and casual dining are still popular formats. Operators should continue to invest in enhancing the customer experience as quality – of both food and service – adds considerable competitive advantage.

Operators also need to understand and attempt to predict customer behavior – which can be challenging when consumers don’t always understand their own behavior.

With the wide array of formats, concepts and cuisines offered in the UAE mirroring its varied demographics, we understand the attraction of trying to bring something completely new to the market – and this will be a route to success for some. On the whole, however, we see that, in the current market, there is merit in developing concepts that already have wider acceptance and appeal.
Delicacies

We look at the importance of engaging effectively with consumers. We question how quality service, deals and promotions attract and retain consumers. We also investigate how social media and data and analytics are affecting the sector.

What makes you try a new restaurant?

- Word of mouth from friends and relatives
- Online ratings and reviews of restaurants
- Known brands from home and abroad
- Deals and promotions
- Advertising
- Reviews by food critics in magazines and newspapers

Getting the word out

Our consumer survey indicates that reviews, whether personal recommendations or online ratings, strongly influence behavior. Word of mouth is by far the most important influencer – while about 40 percent of respondents rated feedback from friends and family as the top influencer, over 80 percent of respondents said that such feedback was one of the top three influencers when weighing up a new restaurant. Just under half of respondents look for online reviews. This underlines the need for proactive customer engagement at all times.

Operators have suggested that, while advertising might persuade consumers to try something new, it was less effective in the long term – a view that resonates with consumer feedback. To build brand loyalty, positive reviews are key. Interestingly, however, poor reviews have a greater impact on F&B businesses than good reviews. As a result, operators are actively looking for ways to engage with consumers, increasingly through social media.
The human touch
Top quality service is a key element in generating positive reviews - eating out is as much about human interaction as it is about food. While the vast majority of our respondents believed service in restaurants was good, about a third of them felt that there was potential for further improvement, mostly in relation to staff training.

Operators have a dilemma here – while they would like to offer a best-in-class experience to their customers, they are wary of over-investing in staff training as increasing competition has led to continuous staff churn. More often than not, it is the best staff that leave first. Most operators prefer to stick to their standard training programs but find ways to incentivize their staff for good service – through rewards, recognition and the sharing of tips.

To tip or not to tip - is good service properly rewarded?
While customers appreciate good service, they don’t seem to be particularly keen on tipping generously. Only about a quarter of respondents said that they regularly tip more than 10%. From an operator perspective, outlets with more generous sharing schemes tend to have a reputation for better service and higher staff retention.
What’s the big deal?
While deals and promotions are not the top influencer of buying behavior, they do have some sway on the eventual choice. In particular, they seem to be effective once a customer has decided on a cuisine or has a shortlist of restaurants to try. Only a fifth of our respondents actively look for deals while choosing a new restaurant.

Operators see coupon-based deals as something of a double-edged sword. They can be very effective in getting people through the door – useful for a new venue or if an operator is having to fight for customers. However, operators don’t want consumers to expect a deal or a promotion every time they eat out. Operators suggest that, once you start offering deals to consumers, it can be difficult to withdraw them without adversely affecting the business.

Some operators are moving to more customized incentive campaigns which offer instant gratification to customers, such as on the spot discounts and offers.

Deals and promotions:

- Induce first time trials: 27%
- Increase footfall: 27%
- Don’t generate customer loyalty: 50%

*Note: Multiple choice question - therefore, the total does not add to 100%.*

Do Michelin stars shine bright?

- Yes: 28%
- No: 57%
- I don’t frequent fine dining restaurants: 15%

Despite the UAE’s reputation for glitz and glamour, Michelin stars don’t seem to be a major influencer. While 15% of our respondents said they don’t go to fine dining establishments, only one third of people who dined at the UAE’s fine dining establishments were swayed by the presence of a Michelin star.

How do deals affect your choice of restaurant?

- Deals influence my choice
- I only look for deals for cuisines I like
- I only look for deals from the restaurants I know
- I only look for deals on special occasions and am not too particular about the restaurant or cuisine
- I rarely, or never, use deals
Shall I Instagram that for you?
With high levels of smartphone penetration, social media is playing a growing role as both an influencer and a tool for customer engagement. According to the Arab Social Media Report 2015, 88 percent of the Middle East’s online population use social networking sites daily with five percent of users spending more than four hours per session. Nearly two-thirds of regional social media users regularly use social networks to get recommendations on products and services. This resonates with consumer feedback on the relevance of online reviews and underlines the growing importance of customer engagement through social media.

Operators understand that they need to find ways to bond and remain connected with their customer base. They are investing in social media capabilities, along with data and analytics, to gain consumer insight and promote their brands. Operators believe that data and analytics will help them establish a competitive advantage in a rapidly evolving digital economy.

Operators are also using some form of data and analytics to help improve:

**Customer insight**

**Brand and product management**

**Pricing decisions**

**Market expansion**

**Portfolio rationalization**

All the operators we spoke to were engaging in some type of social media activity with their customers, although objectives and uses varied. Key themes of social media engagement include:

**Campaigns**

- Geo-targeting
- Virtual clicks
- Feedback
- Pictures
- Media

**Geo-tracking**

- Social network activity
- Share
- Facebook

**CONVERSATION**

- Twitter
- Google Ads
- Instagram

**Virtual clicks**

- SEO
- Monitor

**SEO activity**

- Food apps
- Survey

**Geo-targeting**

- Celebration
- Celebrate

**KPMG view**

Engaging - and remaining connected with - customers is a key differentiator for successful F&B businesses. From personal recommendations to the increasing use of social media, consumer feedback is playing an increasingly important role. Our surveys suggest most operators are still adapting to the challenges of an increasingly digital world – but they are making progress. Proactive engagement with customers is seen as an effective way to develop and protect brand loyalty in a congested market.

We see human touch points as being critical to customer experience and engagement. Operators should consider further investing in both retention of and training for staff which aligns with their brand ethos. Positive customer experiences lead to better reviews, better engagement and, eventually, better bottom lines.
Specialties

We explore how innovation is affecting the UAE’s F&B market, paying particular attention to the growth and popularity of digital (including food apps), healthy eating and food festivals.

Call me maybe?

As with almost everything else, smartphones are transforming the way consumers buy F&B. Food apps have been a major catalyst in this change. Consumers use their smartphones and food apps to find new restaurants and read online reviews, and also - according to 40 percent of respondents - to buy meals.

Do you own a smartphone or tablet?

Yes  95%
No   5%
Apps on the up
Given the growth of food apps and their impact on operators’ volumes and topline, they are seen as an important contributor to success. Most operators we spoke to are not just listed but also get a reasonable volume of business through these platforms.

Food apps continue to evolve, looking to offer new propositions to consumers that drive convenience and add value. What started with search and discovery offerings, allowing consumers to find restaurants and read reviews, was further augmented with capabilities to call and order and then online ordering and delivery, allowing customers to order with a few clicks. One prominent food tech player reported that nearly 20 percent of orders channeled through their platform are now online. Having captured a sizable share of the delivery business, food apps are now playing a role in restaurant reservations as well as table management, going well beyond just lead generation.

How are food apps affecting your business?
- Integrated platforms for order and table management
- Customer analytics
- Integration of payment gateways
- Geo-targeting
- Near field technologies

How food apps have evolved

<table>
<thead>
<tr>
<th>Search and discovery</th>
<th>Online ordering</th>
<th>Online reservations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Search for restaurants, write reviews, get suggestions, rate experiences, call outlets</td>
<td>Web or app-based food delivery</td>
<td>Web or app-based table reservations</td>
</tr>
<tr>
<td>Revenue model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primarily dependent on advertising revenue; potential to explore premium listing charges</td>
<td>Charges per order which can either be fixed or linked to order value</td>
<td>Fixed charges per table or person; potential to charge a percentage of bill value</td>
</tr>
<tr>
<td>Key players</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zomato, Foodonclick, Talabat, 24h.ae, RoundMenu</td>
<td>Zomato, Talabat, Foodonclick, Deliveroo, 24h.ae</td>
<td>Reserveout, Zomato, OpenTable, RoundMenu</td>
</tr>
</tbody>
</table>

Do you see value in food apps?
- Yes, we are already listed on all the food apps in the market. (9%)
- No - although we are listed. (9%)
- No - we aren’t listed. (82%)
Healthy eating - consumer and operator views

**Are operators offering more healthy food options now?**

- Yes, there are more healthy items on the menu now than a year ago.
- I have not noticed any changes in healthy options over the last year.
- No, there are fewer healthy options now.

**Counting calories**

Healthy eating is another trend that is increasingly popular in the UAE. With ever-changing lifestyles and increasing health awareness, consumers are looking to eat more healthily. Over three-quarters of respondents indicated that they are either eating more healthily or at least are more health conscious.

While operators confirm that consumers are more health conscious, operators do not think consumers’ eating choices are as healthy as consumers would like to believe. Operators believe there is still huge scope for building awareness so that consumers understand what is – and what is not – healthy.

Consumers also feel that there is a need for a wider range of healthy food options. Only a third of respondents believe there are more healthy options on menus than last year.

**Healthy eating - consumer and operator views**

**Do you eat healthily?**

- I always eat healthy food.
- I eat healthily during the week, however, I indulge a bit at the weekend.
- I have become more health-conscious.
- I am not particular about nutritional value; I prefer taste over health.

**Are people in the UAE eating more healthily?**

- Yes, the trend has really picked up.
- Yes, but it is still early days for healthy eating.
- No.
Food festivals don't generate much revenue - but will continue. Food festivals are a great opportunity for smaller (and newer) operators to offer new concepts I don't think food festivals do anything for the F&B sector. New brands and concepts are introduced during food festivals. I don't think food festivals do anything for the F&B sector.

Feasts and festivals
Both Dubai and Abu Dhabi host gastronomic extravaganzas in the cooler months, which offer smaller but innovative brands and concepts an opportunity to showcase their offerings.

Operators see these developments as positive as it gives both operators and consumers an opportunity to experiment. Operators can gauge enthusiasm for new concepts without having to invest heavily in a traditional venue. At the same time, consumers can try different cuisines and formats without having to travel widely. These trends definitely help creating an active interest in food. However, operators believe that food festivals will continue to be niche events with limited appeal in the medium term. They are confident these festivals do not pose an imminent threat to the more traditional segment of the business.

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Hot bites

We examine some of the challenges F&B operators may have underestimated, including the imminent introduction of VAT, the difficulties of predicting consumer behavior, and how to sustain top line growth.

Too hot to handle?
Operators have highlighted a number of challenges, including rising food and rental costs, staff attrition and growing competition. Other short and medium term challenges which may have been underestimated include:

- **VAT** – operators seem to be under-prepared although this is likely to be introduced in 2018
- **Consumer insight** – operators need to better understand what people eat and drink - and why
- **Effective expansion strategies** – expanding simply by introducing new brands, opening new locations, and locking competitors out of venues is only likely to work in the short term
- **Controlling costs** – reviewing operational processes and controls is more likely to protect profits than an unremitting focus on cutting costs
With VAT expected to be introduced in the UAE on 1 January 2018, it is striking that a number of industry operators currently seem to have limited awareness of how VAT will impact their business. With limited time, operators should start now to prepare their businesses for an upcoming change which will bring new challenges.

What should UAE F&B businesses be doing to prepare for VAT?

**VAT do I do now?**

- How will I recover VAT paid to suppliers?
- How will my pricing change?
- What does VAT mean for my customers?
- What incremental costs will VAT add to my business?
- What are the implications of VAT on franchise agreements, royalty payments and other contracts?
- Are all my sales liable to VAT?
- How will VAT affect operations and IT systems?

**Phase 1: Plan and analyze**
- Identify project resources
- Map supply chains
- Map business units and systems
- Document key VAT touch points – incorporate these into the VAT impact assessment (phase 2)
- Review existing long-term contracts which straddle VAT implementation
- Consider VAT clauses in new contracts and tender documents

**Phase 2: Design and implement**
- Review legislation - when released - to validate VAT touch points identified in phase 1 - classify transactions for VAT
- Build input tax credit allocation model
- Agree requisite IT changes with IT vendor
- Build log to monitor and resolve issues where the law or its application remains unclear
- Log transitional provisions in the long-term contracts register

**Phase 3: Test, train and register**
- Validate the impact assessment
- Action issues in log
- Validate applicable transitional provisions for long-term contracts
- Test VAT systems (IT vendor)
- Ensure VAT system reports are sufficient
- Train staff
- Registration
- Register for VAT

**Phase 4: Go live**
- Test exceptions
- Prepare and file VAT returns
- Resolve any teething issues
- Fine-tune compliance practices

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Now | Before the end of 2016 | During 2017 | From 1 January 2018
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Less than a third of operators we spoke to thought VAT was going to significantly affect their business.
Robust strategic planning is going to be needed in the current market environment. Expansion strategies have too often been based on unrealistic growth objectives and implementation capabilities may not have been considered. Businesses must also align their offerings with consumer requirements - which can only be done through a focused effort to gather and analyze data around preferences and behaviors. Finally, operational reviews based on leading practice, which offer industry-focused external perspectives, are an increasingly important way of maintaining focus on both top and bottom line growth.

We also believe that VAT will have more of an impact on the sector than many of the operators we spoke to are currently predicting. While prices will increase, the impact on current systems and business functions will be more significant.

We have seen that the market is resilient and that consumer engagement, combined with innovation, is key to sustainable F&B success. However, there are challenges beyond location, staff attrition and high rents that businesses need to prepare for. In our view, those businesses that take note of - and most importantly are proactive in addressing - such challenges are those likely to face the least amount of disruption to their operations.
The UAE’s F&B market remains resilient and the outlook is robust in the longer term. F&B operators continue to invest with an eye on the future.

Consumer preferences are relatively consistent. Differentiating on quality and customer experience is crucial to stand out from an increasing number of available choices.

F&B businesses understand the importance of engaging with their customers – and are getting better at it. The effective usage of social media and data and analytics offer significant competitive advantages.

Innovation is impacting the market as a whole but there seem to be very few individual disruptors that are having a marked effect - getting the basics right is still key.

While there are numerous F&B opportunities across the UAE, there are also a number of challenges, which are multifaceted and substantial.
Hungry for more? reflects the viewpoints of 840 respondents living across the UAE. The online survey was conducted in the second quarter of 2016.

We spoke to key decision makers at more than a dozen UAE F&B businesses, representing more than 60 brands and over 550 outlets, and two of the UAE’s predominant food tech players. Using a combination of open and closed questions in wide ranging interviews held in the second and third quarters of 2016, we tested hypotheses suggested by our consumer survey and elicited views on the current and future state of the market.

Desserts

We explain who we questioned - both consumers and industry executives - and highlight the services KPMG provides to F&B clients.
Key aspects of your F&B business — and KPMG service offerings

**Accounting and finance**

**KPMG services:**
- Audits and reviews of financial statements
- Agreed upon procedures
- Compilations of financial statements
- Outsourced payroll, bookkeeping and accounting services
- Attestation services

**Strategy**

**KPMG services:**
- Business planning
- New market entry
- Strategic transformation
- Consumer insight
- Go-to-market planning

**Deals**

**KPMG services:**
- Valuation services
- Financial due diligence
- Fund raising
- Financial restructuring
- Partner search
- Negotiations and closure
- Sell-side M&A

**Digital**

**KPMG services:**
- Digital strategy
- Customer experience transformation

**Tax**

**KPMG services:**
- VAT impact assessments and preparation
- Tax structuring
- International tax
- M&A tax solutions

**Operations**

**KPMG services:**
- Internal audit
- Operational reviews
- Store audits

**IT and cyber security**

**KPMG services:**
- Cyber security
- IT system reviews
- System selection and implementation
- Sourcing advisory

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**About KPMG**

As a leading professional services firm, we are proud of our reputation for delivering cutting-edge solutions and exceptional client value. With over 50 partners and directors leading 650 professionals across six offices in the Lower Gulf, we work shoulder to shoulder with our clients, offering independent audit, tax and consulting advisory services to business corporations, government bodies and not for profit organizations. KPMG is proud of its reputation for developing its people and the wider business community. We actively support our staff and are proud to be recognized as a leading employer.

**About our retail and F&B capabilities**

Our retail-focused team, with a dedicated F&B function, serves a range of diverse industry segments across the retail, consumer goods and F&B sectors. Complemented by a global network of dedicated partners and professionals located across the global network of individual KPMG firms, our value lies in our depth of talent and the experience we have gained helping clients respond to industry, market and regulatory changes and challenges. We work with our clients to adapt and capitalize on the trends being set by today’s rapidly changing environment. With deep industry experience, insight and technical support, our qualified retail and F&B professionals deliver a broad range of audit, tax and advisory services to meet the unique needs of F&B companies.
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The Head of Retail for KPMG in the Lower Gulf, Anurag is widely recognized as a leading expert on the nation’s food and beverage sector, responsible for writing a wide range of thought leadership, speaking at conferences and developing a range of leading practice. Anurag advises the C suite and boards at a number of UAE-based family businesses and leading global multinationals.

Based in Dubai, Matt has advised UK, Emirati and international clients within the FMCG, retail and F&B sectors on issues ranging from acquisitions and disposals to business planning and strategy. Since helping to author the 2015 F&B survey, Matt has worked with a number of UAE-focused F&B organizations on a range of different assignments.

Vikrant has been advising clients on strategy, business planning and transactions for over 11 years. Focused on the consumer markets space, Vikrant has a particular interest in the food and beverage sector, having recently worked with leading local, regional and international operators on a number of different assignments.

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