KPMG

Recipe for resilience

2019-20 GCC Food & Beverage report

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From the chef's table

This is the fifth edition of our annual series, which examines the current state of the Food & Beverage (F&B) industry. In addition to the United Arab Emirates (UAE), we have expanded our coverage this year to include the Kingdom of Saudi Arabia, Kuwait, and the Sultanate of Oman.

Over the past few years, we have endeavored to fill a gap in the UAE F&B market: the absence of reliable and relevant information for stakeholders. This time, we have taken a further step in our journey to bring you flavors from the region, addressing feedback we have received from many of you. We have found that each market represents a unique set of opportunities and challenges.

We were originally looking forward to releasing this report earlier this year, based on research conducted in the second half of 2019. However, seeing the ramifications the pandemic had on the sector and its performance, we decided to step back. We updated our research to reflect what we have witnessed in the market over the last eight months.

This report captures the views of operators and consumers across the region and draws comparisons amongst countries around consumption preferences and behavior, including a second survey in summer 2020 to gauge operator and consumer sentiment in response to Covid-19.

We have continued our analysis of financial and operational benchmarks for various segments within the sector. At the time of writing this report, the world is going through a phase of unprecedented uncertainty, with customer-facing businesses generally bearing the brunt. How well the industry fares will likely depend on how soon the virus is contained and the level of associated lockdown restrictions.

In the UAE, 2019 market dynamics remained largely consistent with 2018, though we did see some signs of normalizing performance. The pandemic has brought with it a new set of challenges to overcome, and most operators will rely heavily on the support of the government and key stakeholders.

Given recent policy changes in Saudi Arabia, the market presents an interesting and evolving opportunity that is drawing operators' attention. While the Kingdom has always had the potential to become the largest F&B market in the region, it may at last fulfill this. While short-term expectations have been hampered by Covid-19, Saudi Arabia is still the next frontier in the region for F&B operators.

Kuwait, launchpad of the region's most prominent home-grown concepts, paints a picture similar to the UAE. It boasted the highest spend on delivery in the region in 2019. In Oman, we saw that despite being the smallest F&B market in the GCC, the Sultanate fared marginally better than the UAE and Kuwait on the back of growth in consumer demand in the run up to the pandemic.

Consumers across the region continue to demonstrate value-seeking behavior, compelling operators to incorporate deals and promotions as a key tactic. While most consumers surveyed expect to resume their pre-pandemic dining habits by early 2021, several operators in the GCC appear to be bracing for hard times, with most expecting reduced sales through mid-2021.

Recovery may prove tricky. However, operator performance through recent downturns indicate that those who can hone their strategy, test their methods, and remain afloat throughout the potentially lean periods will enter the recovery poised for expansion.

We would like to extend our heartfelt thanks to the operators who voluntarily shared their insight and experience with us – you help to make our report rich and relevant every year. I hope you find the publication useful. We would be delighted to discuss the findings with you and hear your feedback.

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Methodology

Consumer view pre-pandemic (Q3 2019)

Consumer view during pandemic (June 2020)

Operator view pre-pandemic (Q3 2019)

Operator view during pandemic (June 2020)

Multiple choice question

Entrées

We examine the current state of the region's F&B market, understand the interplay of demand and supply and assess the impact of the pandemic on the sector.

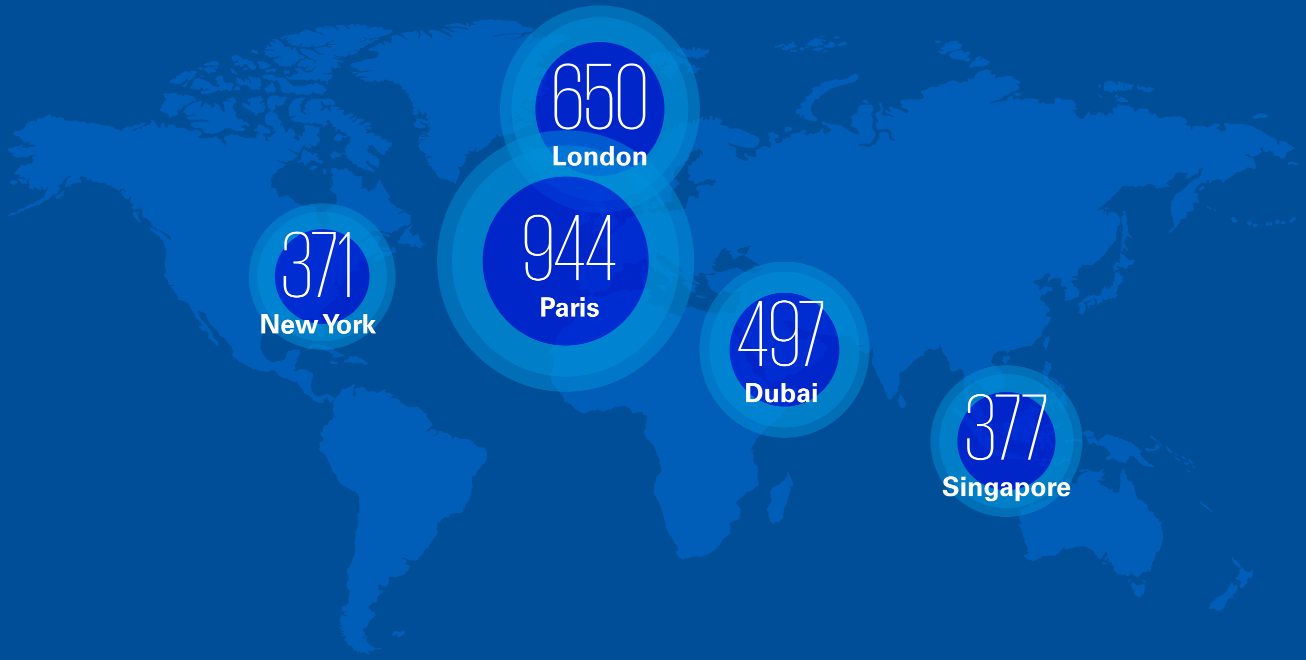
The region has firmly established itself as a gastronomic hub, boasting the presence of popular global brands and international chefs across a wealth of F&B concepts from around the world. Cities like Dubai are particularly noteworthy as global F&B destinations.

As the region has outpaced the world in per capita income[4,5], the consumption-driven F&B sector was expected to continue growing and evolving.

However, the consumer landscape across the GCC has been shifting in the last few years. A saturated retail market, coupled with a recovering economy in 2019, subsidy cuts and the recent implementation of VAT brought about a new consumer profile: price conscious and cautious. As a result, discounts have become a necessity and margins are bearing the brunt. Add to this a pandemic hit populace now wary of eating out and ordering in and the list of challenges facing markets in the region are formidable in the near-term.

For those operators who can retain customer loyalty, especially those who can do so through deliveries, we expect the recovery to be smoother in 2021. But to do so will require a minimum set of measures to allay consumer concerns around health and safety including frequent and visible sanitation, staff protective gear, limited capacity seating, single-use menus, temperature checks for diners and staff, and no touch entry points, adding to the compliance costs for the businesses.

Restaurant footprint (number of restaurants per million residents and overnight visitors) – Dubai vs. major global destinations[1,2]



1 MasterCard Global Destination Cities Index (GDCI) 2019
2 Footprint is calculated on the number of restaurants per million residents and overnight visitors
3 According to MasterCard GDCI 2019, Bangkok is ranked first in terms of international overnight visitors. The other cities presented in our analysis are in the order of their rankings
4 World Bank
5 High income economies is a term used by the World Bank to describe the most developed countries in the world, low income economies are terms used by the IMF to describe nations that are investing in more productive capacity, i.e. are moving away from their traditional economies that have relied on agriculture and the export of raw materials.

2018 international overnight visitors and average spend for major global cities[1,3]

	Paris	London	Dubai	Singapore	New York	Makkah
GDCI 2019 ranking	2	3	4	5	7	13
2018 international overnight visitors	19.1 m	19.09 m	15.93 m	14.67 m	13.6 m	10.0 m
Growth forecast for 2019	2.2%	3.5%	1.7%	4.0%	2.9%	6.6%
Average length of stay in 2018	2.5	5.8	3.5	4.2	7.9	14.9
Average spend per day in 2018	$296	$148	$553	$272	$152	$135

GDP per capita (2019 USD purchasing power parity) far outpaces the global standards[4,5]

GCC

$58,638

Advanced economies

$49,883

Emerging and developing economies

$10,750

The United Arab Emirates

Growing appetite— and concerns

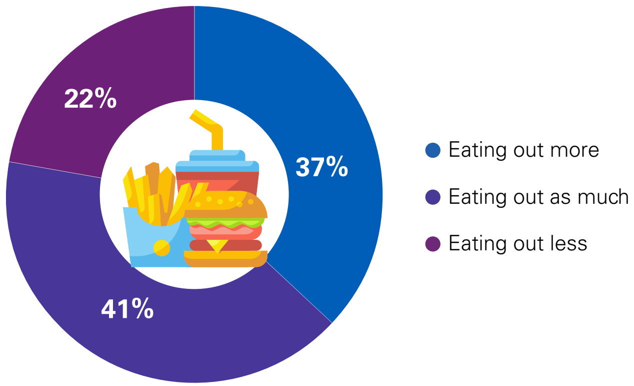
With a high inflow of tourists and the presence of globally renowned food and beverage brands, the United Arab Emirates (UAE) has been at the forefront of the F&B sector in the region for years.

In 2019, as Dubai retained its fourth position in the MasterCard Global Destinations City Index, Abu Dhabi also entered the ranks among the top ten fastest growing global destinations. The UAE's growing importance as a tourism destination will continue to prompt global F&B chains and local operators to seek avenues to establish and expand their presence across the emirates.

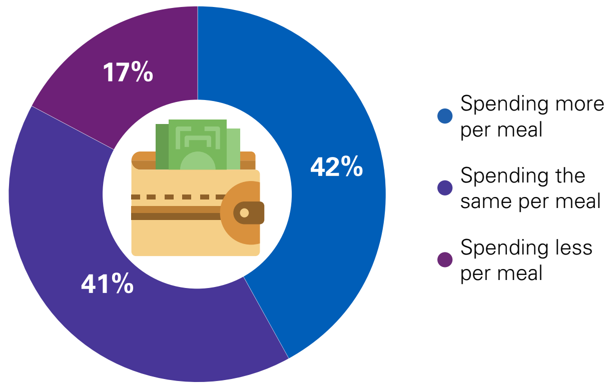
2019 demand in the F&B sector remained strong, with 78% of consumers surveyed continuing to eat out as much or more compared to 2018. Similarly, 83% spent the same or more on eating out versus 2018, a consistent trend over the last few years.

However, during the pandemic, consumer behavior underwent a near-term dramatic shift and the majority of consumers reduced dining out and ordering in during the pandemic. While over half of the respondents plan to resume pre-pandemic dining out habits by early 2021, the vast majority expect to stay home or scale back on eating out through to the last quarter of the year owing to health and hygiene concerns.

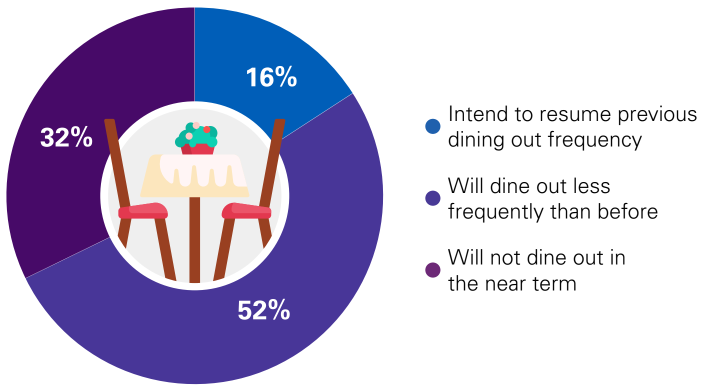
2019 dining habits as compared to 2018



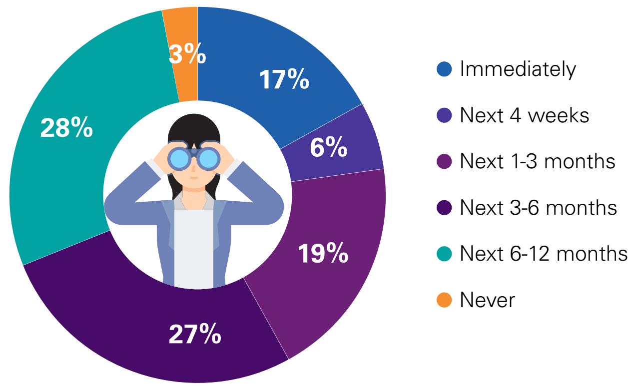
2019 average spend as compared to 2018



What are your views on dining out over the next three months?



When do you expect to resume pre-Covid-19 dining out habits?



Taking a step back

The market continued to be challenging for most F&B operators in 2019 – a trend we have seen over the past several years in the UAE. More than 50% of operators we spoke to witnessed a decline in like-for-like (LFL) sales. When we consider this in light of past years' performance, this suggests a consistent and concerning trend. However, analysis of near-term performance through the end of 2019 left us with a few positive takeaways.

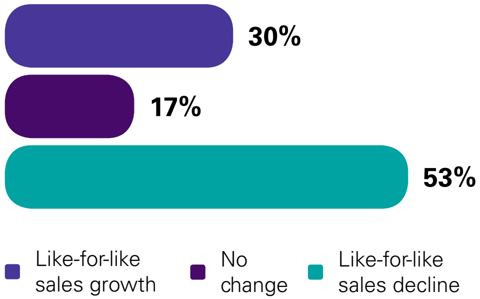
While seven out of ten operators witnessed a decline in LFL sales in 2018, only about half of the operators faced challenges in achieving LFL growth in 2019. Furthermore, 30% of operators saw LFL growth in 2019. This was encouraging and suggested that some operators are getting better at reading the market and recalibrating their strategy to address market realities.

Even operators who witnessed LFL growth admit that the days of heady growth in the F&B market are a thing of the past – operators have largely accepted this new reality.

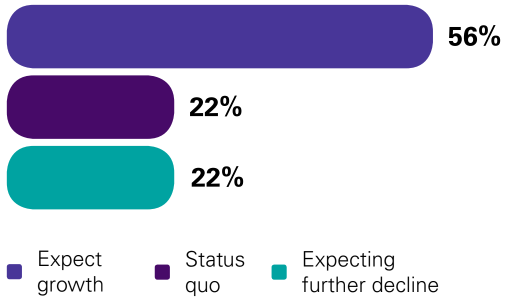
Although operators entered 2020 with an optimism geared partly around expectations surrounding Expo 2020, the effect of the pandemic has hit the F&B sector severely.

Nine out of 10 operators today expect sales to decline by more than 20% this year out of this, one-third of the operators are expecting more than 40% decline in sales. While there are aren't many ways to alleviate loss of business, some operators expect Expo 2020's delay to 2021 could provide a boost to the business as consumer demand normalizes.

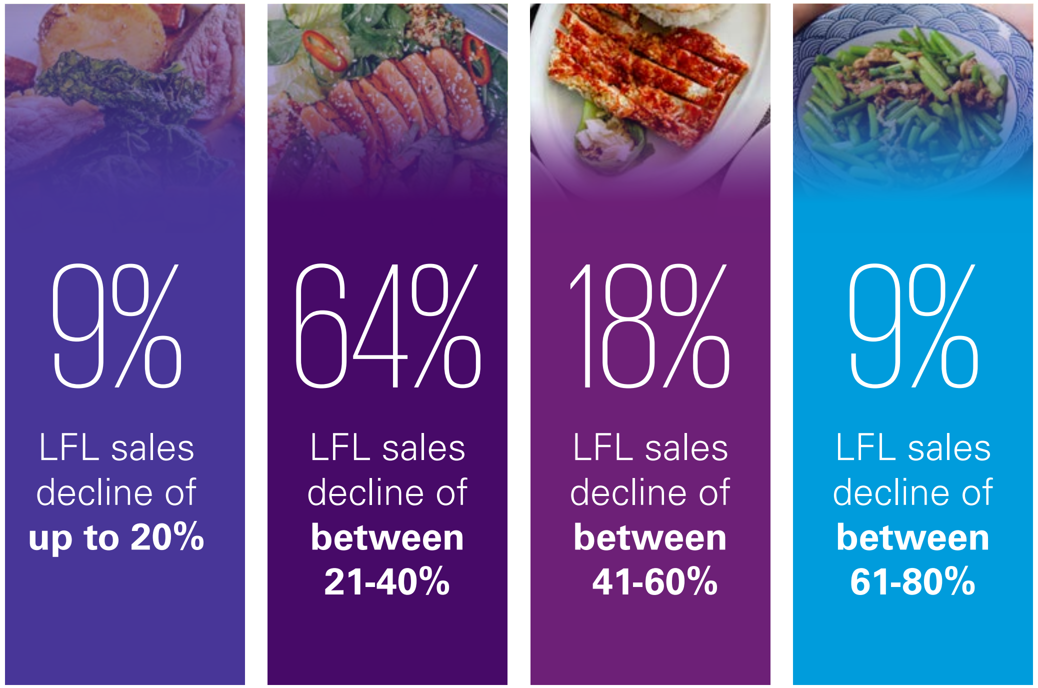
How did your F&B business perform in 2019?



What was your short-term outlook (next 12 months)?



Considering the implications of Covid-19, what is your revised outlook for the F&B sector for the next 12 months?



Extra servings

Towards the end of 2019, despite optimism, most operators were concerned with oversupply as developers increased the F&B space in newer malls, leisure and entertainment destinations. Indeed, in 2019 supply continued to outpace growth in both the resident and tourist segments. Additionally, tourist arrivals seemed to increasingly comprise visitors who tend to be less experimental and gravitate toward familiar food choices.

According to JLL's 2019 UAE Real Estate Market report, retail gross leasable area (GLA) in the UAE was expected to increase by 30% by 2024. In a market where many existing retail avenues are struggling to maintain or improve their performance, this surge in supply was a significant cause for concern amongst retailers and F&B operators.

It was, therefore, not surprising that a number of operators were willing to wait until after the launch of these newer developments rather than making early commitments. Many have learned from past mistakes and were more likely to wait and see what works in the current market. This has been a key element of the new operators' playbook.

Regulating supply and ensuring a balance between supply and demand remains important to the retail segment. In 2019, the government of Dubai was actively looking to address this challenge of oversupply, establishing the Higher Committee for Real Estate Planning.

In addition, recent years have seen a fall in tourism spending in the UAE, attributed to the devaluation of currencies from the UAE's top inbound source markets resulting in a more expensive Emirati Dirham. Owing to this, the UAE is a more costly holiday destination for some visitors. This concern has only been exacerbated by the pandemic.

Dubai tourist arrivals by top source markets (in '000s) - 2015 vs. 2019[6]

	2019	2015	Change %
GCC	2,922	3,136	-7%
Europe and Americas	3,056	2,694	13%
India	1,970	1,601	23%
China	989	450	120%
Russia	728	211	245%
Others	7,065	6,108	16%

[6] Department of Tourism & Commerce Marketing (DTCM)

Historical FX rates for 1 AED of key tourism source markets[7]

	UK (GBP)	European Union (EUR)	India (INR)	Pakistan (PKR)	China (CNY)	Russia (RUB)
2018	0.204	0.231	18.620	33.070	1.801	17.092
2019	0.231	0.243	19.178	40.869	1.881	17.631
YoY	-4.4%	-5.1%	-2.9%	-19.1%	-4.3%	-3.1%

[7] X-rates and KPMG Analysis

Bumpy road ahead

In 2019, evolving geopolitical factors were the foremost concern among operators; they not only impacted consumer sentiment and willingness to spend, but also affected investor confidence in the market. Many were also worried about oversupply and increasing competition.

While the F&B industry had witnessed continued cost optimization efforts, some operators continued to feel the impact of rising costs. Many we spoke to in 2019 mentioned a declining, or at best stagnant, bottom line over the last few years, partly attributable to an increase in costs.

Several operators also expressed that they were adversely affected by new regulations and/or changing terms of business. Specifically, some with licensed outlets raised concerns around key suppliers changing their terms of business. With the price of beverages at licensed outlets amongst the highest in the world, many operators felt these changes will only increase costs for their patrons.

While these sentiments remain relevant in 2020, the pandemic has produced its own set of unique concerns. Social distancing, while manageable, has a significant impact on the economics of the business – reduced capacity will lead to reduced transactions and consequent bottom line impact. Less immediately addressable is reduced consumer demand (both tourist and domestic) due to Covid-19 and the resultant issues around cashflow and costs. The government and key stakeholders in the UAE have responded proactively with the aim of providing support and relief to the segment, while also assuring consumers of adherence to health and safety regulations.

Given that the pandemic has not only created a new set of challenges, but exacerbated preexisting ones, operators have been hard-pressed to curtail operations and reduce costs. But the uncertainty around the duration and impact of the crisis makes it more difficult for operators to plan ahead.

What are your most pressing concerns over the next 12 months?

What are your key concerns during the pandemic?

Hope…and a long rope

To help local businesses navigate an already challenging market, the UAE government enacted a variety of measures in 2019 to ease the cost burden for the F&B sector, which were welcomed by the operators.

This included the refund of workers' bank guarantees at the time of visa renewal[8], which generated a small but positive impact for many. Other changes included recent updates to employee visa regulations, which helped contribute to lower compliance costs, and a reduction in Dubai's municipality taxes, which favorably impacted the hotel-based F&B segment.

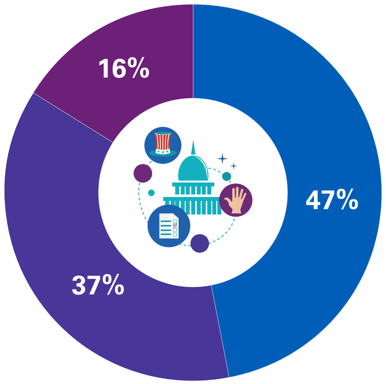
While these initiatives were a step in the right direction, more robust support is needed to weather the storm. Even though help has been forthcoming from not only the government but also other key stakeholders in the sector including banks and landlords, the sector is still likely to be impacted as is the case with many other consumption-driven businesses.

Some examples include the UAE Central Bank's AED100 billion Economic Support Scheme for retail and corporate customers affected by the crisis, a stimulus that should have a large domino effect on the F&B sector in terms of access to funds and management of existing debt arrangements.

Both the Dubai and Abu Dhabi governments announced a range of measures such as reductions in tourism and municipality fees, and water and electricity charges, as well as an SME credit guarantee programme.

It remains to be seen how F&B businesses will cope with the new reality once the stimulus schemes are phased out. Most operators are pinning their hopes on a revival in consumer demand, the gradual relaxation of the health and safety measures and a return in travel to the UAE.

Have government initiatives had positive impact on your business?



- Some positive impact
- Limited or no tangible impact
- Not sure

8 Whilst the refunds of the worker's bank guarantee and new visa regulations are applicable across the UAE, the reduction to municipality taxes only applies to the emirate of Dubai.

A tale of two cities: Abu Dhabi and Dubai

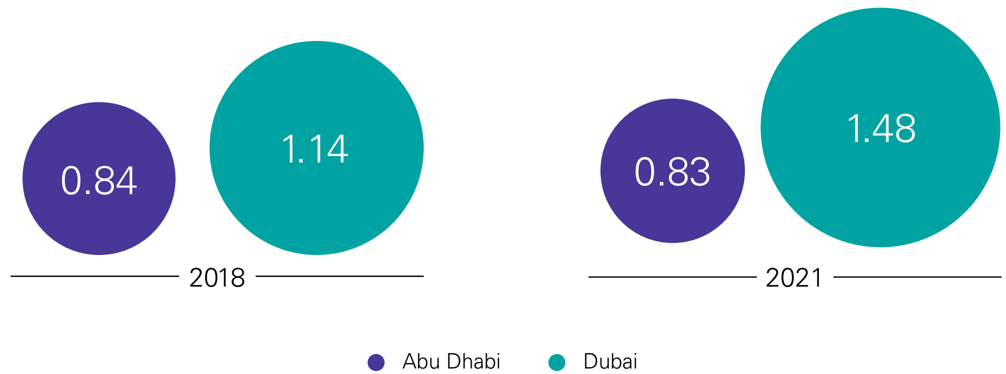
We analyze the distinctive features of the UAE's two largest emirates and understand the dynamics of these pillar cities. Given the sheer volume of tourists and size of the expatriate work force, Dubai represented a significantly larger portion of the UAE's F&B market in 2019 – both in the number of transactions and share of the delivery segment. As a result, most operators agreed that the challenges seen last year had a more pronounced impact on their business in Dubai.

It is notable, however, that Abu Dhabi represented a better margin offering for operators. This is attributable to the lower pre-pandemic cost of rentals, utilities, trade licenses, and labor-related expenses (e.g. transportation and accommodation). Additionally, taxes and other charges related to alcoholic beverages remain lower in Abu Dhabi.

Average ticket size also tended to be higher in Abu Dhabi. This is partially attributable to the presence of a larger Emirati population, who tend to have a larger spend per head. This was predominantly true in quick service restaurant (QSR) and casual dining formats. Dubai still boasted higher average spend per head in fine dining, as it is the gastronomic hub of the UAE.

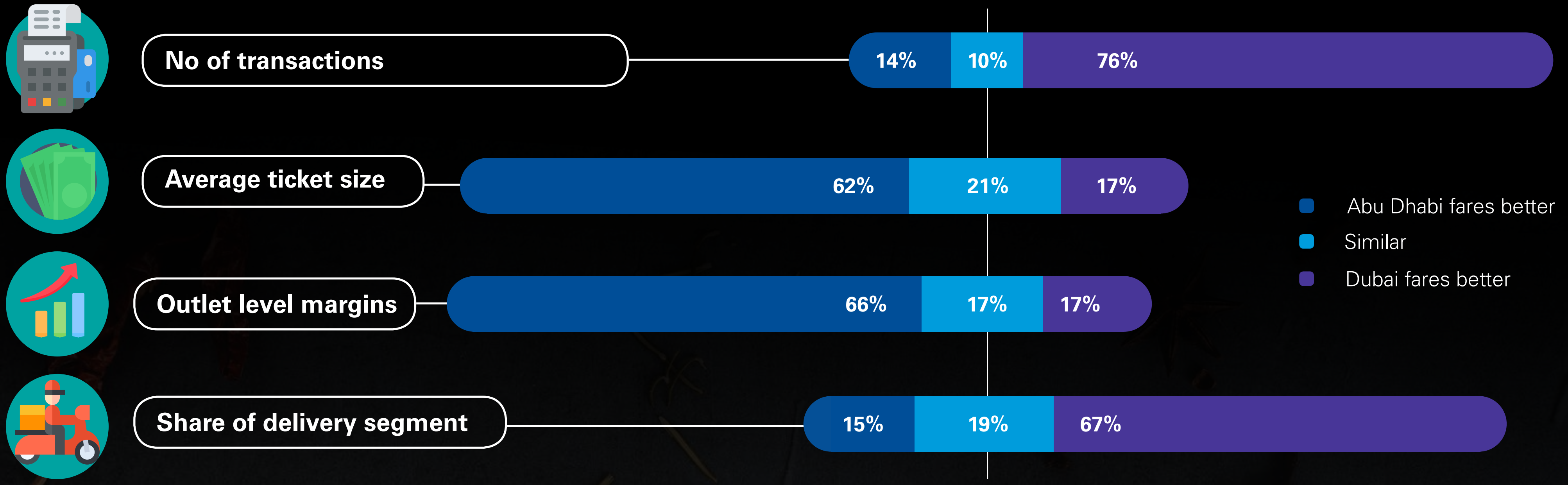
Prior to the pandemic, operators also noted that with new openings and increased competition, it was more challenging to succeed in Dubai than in Abu Dhabi. Despite these factors, operators have continued to focus on succeeding in Dubai, as it remains the region's go-to city for most brands – international and regional – looking to establish a presence and grow in the Middle East.

Retail supply per resident (sqm)[9,10]



9 JLL "The UAE Real Estate Market Q3 2019" Research Report
10 Source: World Bank and KPMG analysis

How does outlet level performance differ between Dubai and Abu Dhabi?



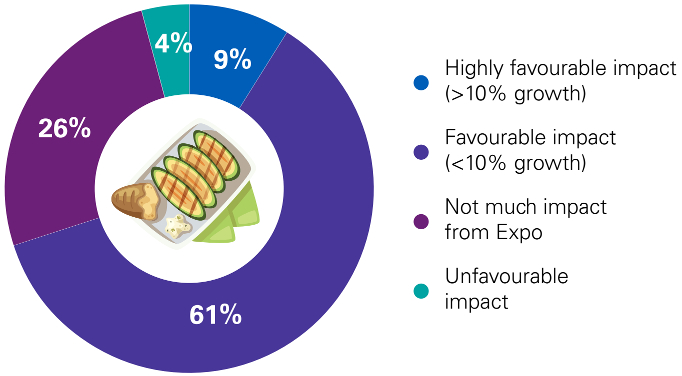
Show of the decade

The start of Expo 2020 Dubai has been pushed back to October 2021 from its original stated launch of Q4 2020. An overwhelming majority of operators we spoke to in 2019 (70%) expected the event to favorably impact their business in 2020. Though the short-term optimism surrounding the expected relief from the event has faded with the pandemic, it could provide a much-required stimulus as the market may begin to normalize next year.

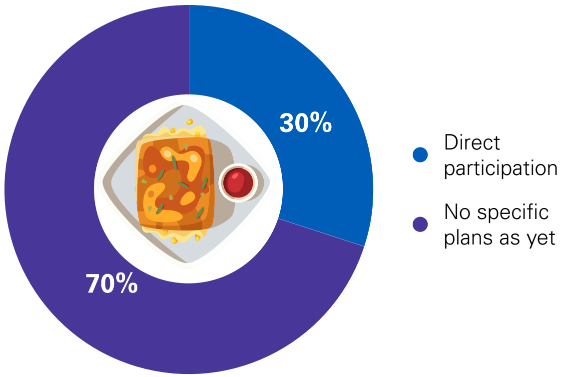
Nevertheless, the Expo is still expected to attract a wide variety of industry stakeholders to the event. Thirty percent of operators we spoke with in 2019 were planning onsite participation.

As for those without any specific plans to participate, many were counting on the event's spillover effect to bolster business at F&B hotspots across the emirates.

How was Expo 2020 Dubai expected to impact your business?



What were your plans around Expo 2020 Dubai?



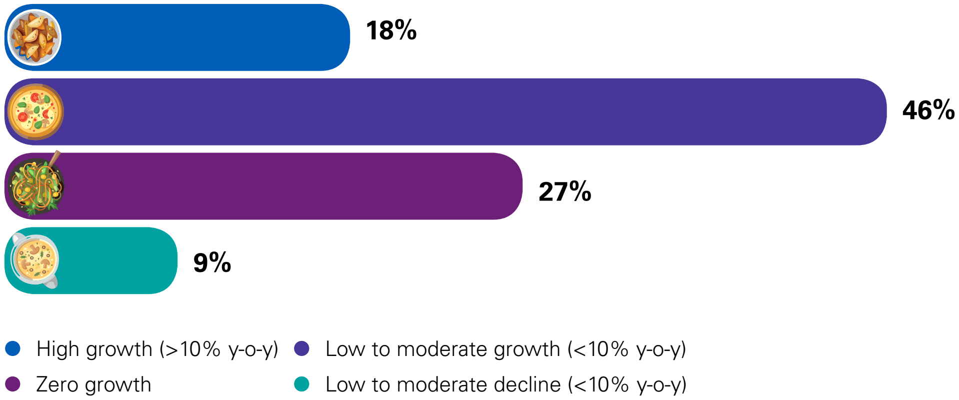
Back to the future

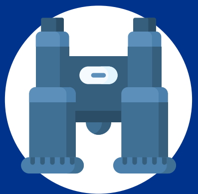
When surveyed in 2019, the promise of Expo 2020 was a key driver for near-term optimism among operators, but many were wary of what lay beyond the mega event. This was primarily due to the perceived absence of any major stimulus for the F&B industry beyond it.

The pandemic has forced a fundamental rethink of operators' outlook. Forced to contend with the pandemic, over 70% of operators now expect little to no growth in the medium term, with 9% expecting a decline.

Businesses were already looking to the government to spur economic growth and provide support to the business community prior to the pandemic. These initiatives are likely to play a key role in shaping the future of the F&B sector and recovery will be greatly contingent on the new stimulus measures put in place by the government during the pandemic. Consumer confidence, health and safety measures mandated by the government and inbound travel confidence (both tourist and other visitors) will also have major impact on the country's recovery.

Considering the implications of Covid-19, what is your revised medium-term outlook for the F&B sector?





KPMG view

With a high inflow of tourists and the presence of globally renowned F&B brands, the UAE has been at the forefront of the F&B sector in the region.

Despite strong consumer demand, 2019 was another challenging year for operators. However, we saw an increasing number managing to achieve growth and fewer operators experiencing a strong decline in LFL sales, despite challenges. This suggested that performance was normalizing, though at a lower base.

But the market landscape has changed dramatically with the advent of the pandemic. The F&B sector, which was perhaps generally struggling to manage profitability, is in survival mode and the pandemic has brought along a new set of challenges.

The road to recovery may be challenging. However, we believe that the speed of change has been dramatic and those operators who have been quick to react and bold enough to take tough decisions will likely perform better than those which have not.

The Kingdom of Saudi Arabia

Shifting sands

At the dawn of the new decade, the Kingdom was undergoing a major shift, having recently opened its economic doors to the world.

Noteworthy changes included the increasing presence of women in the workplace (supporting retail and F&B spending) and a change in policy which lifted the ban on women driving. There was also some relaxation of dress code requirements, a phase-out of gender segregation in restaurants and cinemas, and an easing of tourist visa regulations.

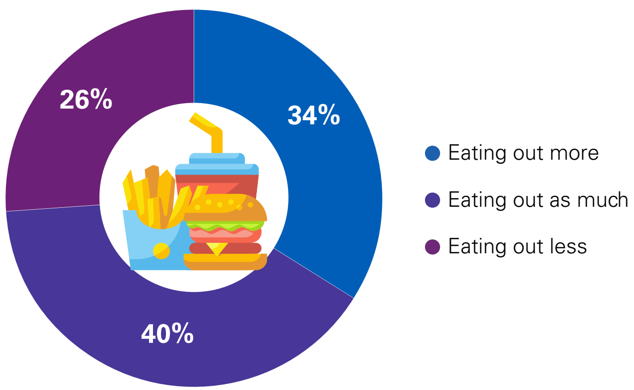
As part of its Vision 2030 programme, the Kingdom has also set aside SAR 240 billion (USD 64 billion) to invest in leisure, entertainment, and culture in order to boost tourism and encourage spending in the local economy.[11] Other key public initiatives included investments in infrastructure, economic diversification, and development of major retail destinations which, though some of these are currently on hold, will go a long way towards aiding recovery as the market normalizes.

Owing to this and the Kingdom's favorable demographics – a young, tech-savvy and rapidly growing population – consumer demand was robust in 2019. Most consumers surveyed were still eating out as much or more (74%) and spending as much or more as compared with 2018 (83%).

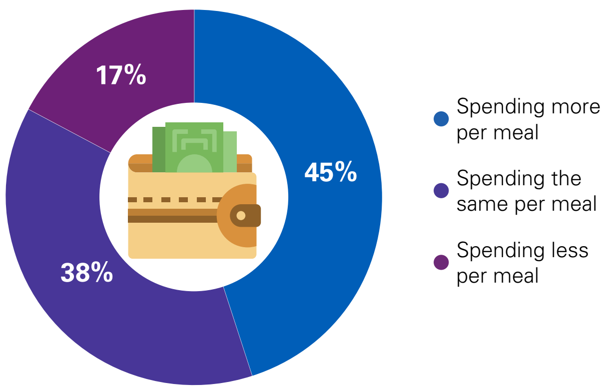
In light of the pandemic, where the Kingdom of Saudi Arabia (KSA) underwent some of the strictest lockdowns in the region including movement restrictions, consumers are exercising cautious optimism about the F&B sector. Although 85% of respondents said they would reduce or eliminate dining out in the near-term, two-thirds expect to resume their eating out habits by early 2021.

[11] Saudi Vision 2030

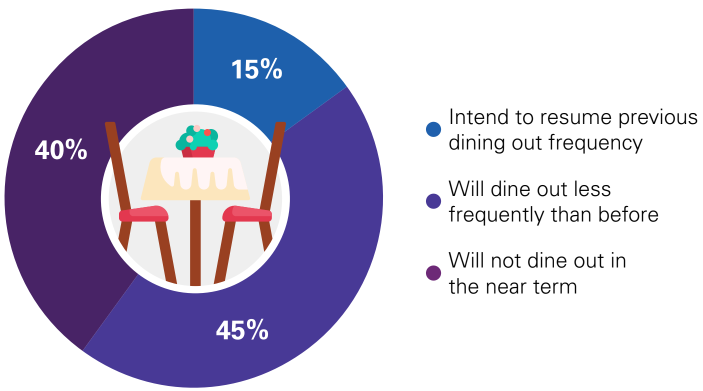
2019 dining habits as compared to 2018



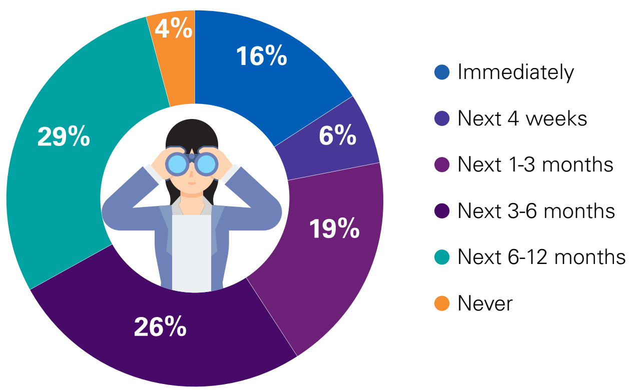
2019 average spend as compared to 2018



What are your views on dining out over the next three months?



When do you expect to resume pre-Covid-19 dining out habits?



Unprecedented challenges

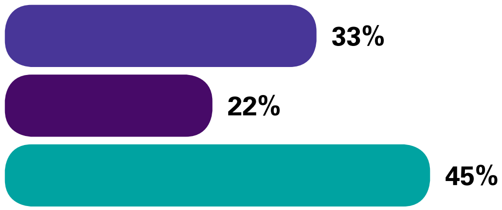
In line with broader positive market trends in 2019, 55% of operators we spoke with observed consistent performance or growth. In addition, 78% were optimistic, anticipating growth in 2020 prior to the pandemic.

Taste profiles are evolving as the economy and country open up and diners are exposed to a wider range of options. F&B growth in KSA has been supported by a traditionally "foodie" community, and global chains and brands have begun to see potential for growth. A number of prominent global and regional brands participated in pop-ups in 2019. In addition, Saudi Seasons, a series of 11 festivals, also did a great deal to boost growth in the sector.

Despite a relatively optimistic pre-pandemic outlook, challenges related to set-up and operations continued to exist. These included lengthy licensing processes, operational challenges, and rising labor costs (such as increasing dependent fees for expatriates and tightening of expatriate visa regulations).[12]

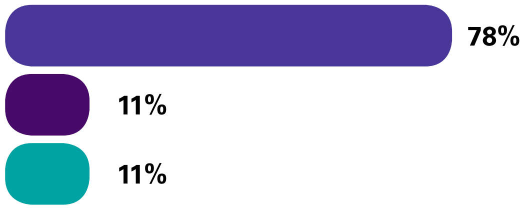
As seen globally, the pandemic has brought about new and more challenging issues. Social distancing and reduced demand topped the list of concerns, followed by managing cashflow and costs (57%). More troublingly, 86% of operators expect sales to contract between 40-60% over the next 12 months, with the Kingdom holding the lowest operator sentiment on near-term outlook, partially driven by tripling of VAT from 5% to 15%.

How did your F&B business perform in 2019?



Like-for-like sales growth | No change | Like-for-like sales decline

What was your short-term outlook (next 12 months)?



Expect growth | Status quo | Expecting further decline

What are your key concerns during the pandemic?

100% Social distancing

100% Reduced demand

57% Managing cashflow and costs

29% Health and safety concerns

14% Staff costs

29% Others (including debt servicing and supply chain issues)

MCQ

Considering the implications of Covid-19, what is your revised outlook for the F&B sector for the next 12 months?

14% LFL sales decline of **between 21-40%**

86% LFL sales decline of **between 41-60%**

[12] World Bank Group Kingdom of Saudi Arabia Provincial Competitiveness Study D

An underserved market

Despite the Kingdom's attractive demographics when compared with other regional markets, its tourist pool in 2019 was notably limited. Developing the market as a tourism destination has been a key pillar of Vision 2030 in order to boost the long-term economy.

Historically, the Saudi market has been grossly underserved, as noted by the relatively low retail density when compared with the UAE. Forthcoming venues will be centered around tourism and entertainment to draw attractive footfall. The F&B segment is expected to gain from this expansion.

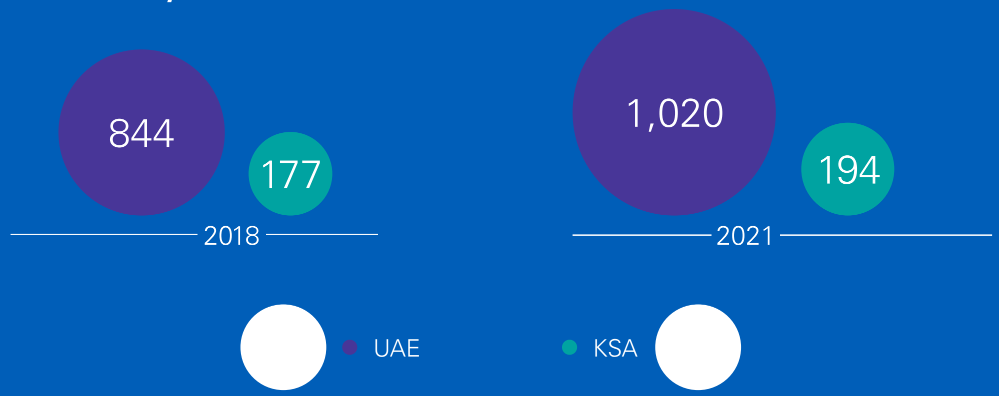
Unsurprisingly, project delays, closures, supply-chain disruptions, and a 300% hike in VAT owing to the pandemic have done the sector few favors. Despite the current setback, the Kingdom's long-term liberalization efforts and mega-projects will continue to bring more and more foreign operators into the Kingdom for expansion in the medium to long term as the world recovers.

Though some operators in 2019 did note a strain on existing locations as the market moved away from traditional standalone restaurant formats and popular high street locations, indicating that the Kingdom's F&B sector was maturing before the crisis. As the recovery gets underway, operators will need to look to 'future proof' locations as pressure grows from emerging retail hubs. Despite the fundamentals for what was the most positive growth story in the region ahead of the pandemic, retail and tourism have likely been set back and the promise will take longer to be realized.

Demand vs. supply growth[13,14,15]

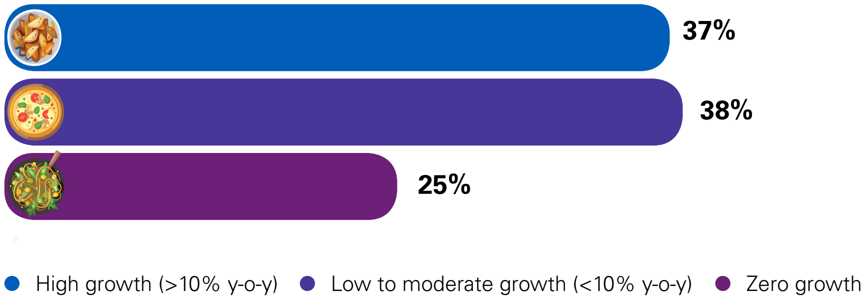
	2018	2021	CAGR (%)
Residents and tourists (mn)	51.1	65.8	8.8%
Retail supply (GLA in mn sqm)	5.9	7.0	5.6%

Retail density in the KSA vs. the UAE[13,14,16]



13 EIU databank and Colliers publications
14 JLL Research Reports "The KSA Real Estate Mid-Year Review 2019" and "The UAE Real Estate Market Q3 2019"
15 Euromonitor databank
16 This analysis is calculated according to the amount of retail space in sqm mn per 1,000 residents in each country

Considering the implications of Covid-19, what is your revised medium-term outlook for the F&B sector?



Cautious optimism

While the Kingdom does not boast tourism demographics that are as favorable as the UAE's, operators were highly optimistic about KSA's potential in 2019. This is largely owing to recent reforms and government initiatives. In fact, an astounding 100% of operators surveyed were bullish on the market, expecting growth over the medium term.

The pandemic, coupled with the increase in VAT, has stalled expectations but not completely eradicated them. Operators in the Kingdom are still hopeful, with nearly 37% of respondents expecting high medium-term growth and 38% holding out for low to moderate growth over the next 12 to 36 months.

KPMG view

The Kingdom of Saudi Arabia has been on the verge of a generational shift for the last few years. Given numerous reforms, coupled with Vision 2030's investments in leisure and entertainment, the F&B segment seems well positioned to benefit.

In the largest addressable F&B market in the GCC, consumer spending was robust going into 2020, mainly driven by an economic revival, various government initiatives, and investments related to tourism and leisure. Historically, the Saudi market has been underserved, and growth in demand was expected to continue to outpace growth in supply for the foreseeable future.

F&B operators were optimistic entering 2020, with 100% of operators surveyed bullish on the market. The pandemic and the recent hike in VAT have dampened their views and in the near term, operators will take a more cautious approach to expansion in KSA.

While short-term expectations have been hampered, Saudi Arabia is still the next frontier in the region for F&B operators. Once the dust settles on the VAT change and the Saudi government reinvigorates its efforts towards Vision 2030, the country may expect a strong medium-term growth outlook.

Kuwait

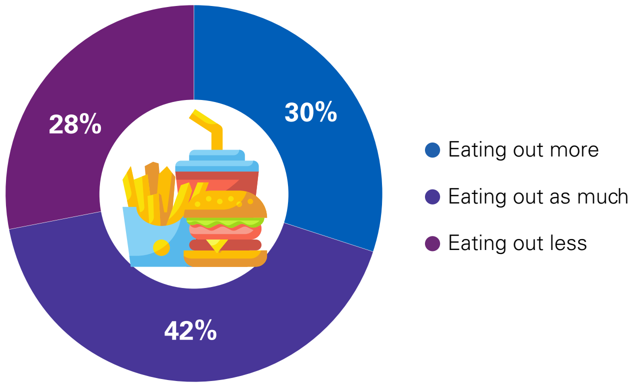
A unique culinary landscape

Over the years, Kuwait's F&B landscape has transformed dramatically, developing its own distinct F&B scene. The nation has become a breeding ground for homegrown brands. Although the regional culinary market has been driven largely by international chains, Kuwait has broken the mold and is the source market for some of the biggest GCC-based F&B franchises, including delivery platform Talabat and M.H. Alshaya among others.

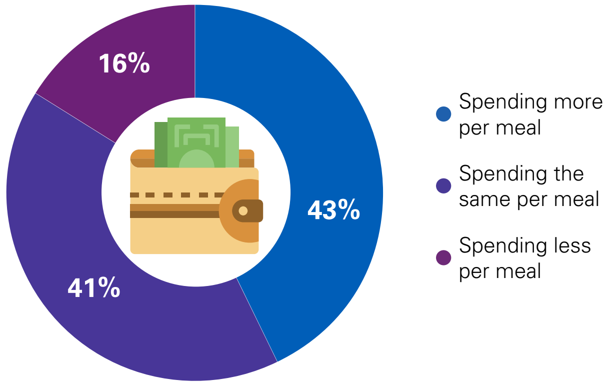
Though Covid-19 has affected consumption habits, Kuwaiti consumers spent a significant portion of their leisure time socializing over food or dining out in 2019, as F&B forms a key part of social and community activity in the country. We expect this trend to return post recovery. In 2019, 72% of consumers surveyed said that they are eating out as much or more, while 84% claimed to be spending as much or more as compared to 2018.

With over 50% of consumers surveyed during the pandemic intending to resume their pre-pandemic dining out habits by the end of 2020 and over two thirds only expecting to do so by early 2021, the country's vibrant F&B scene could be expected to bounce back soon.

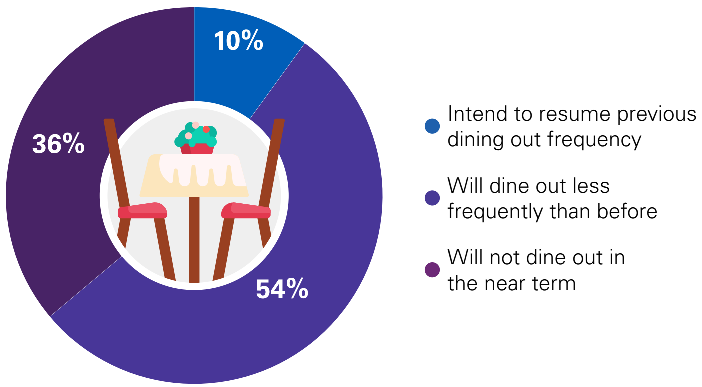
2019 dining habits as compared to 2018



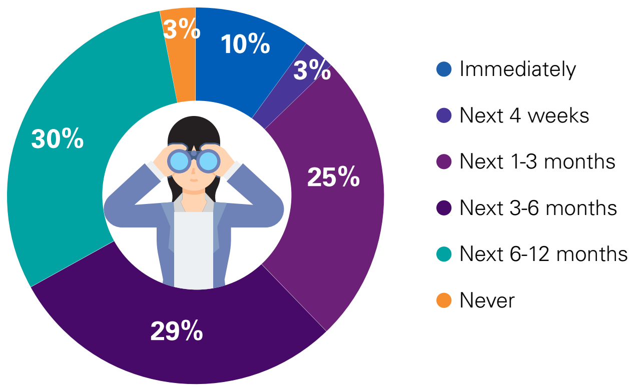
2019 average spend as compared to 2018

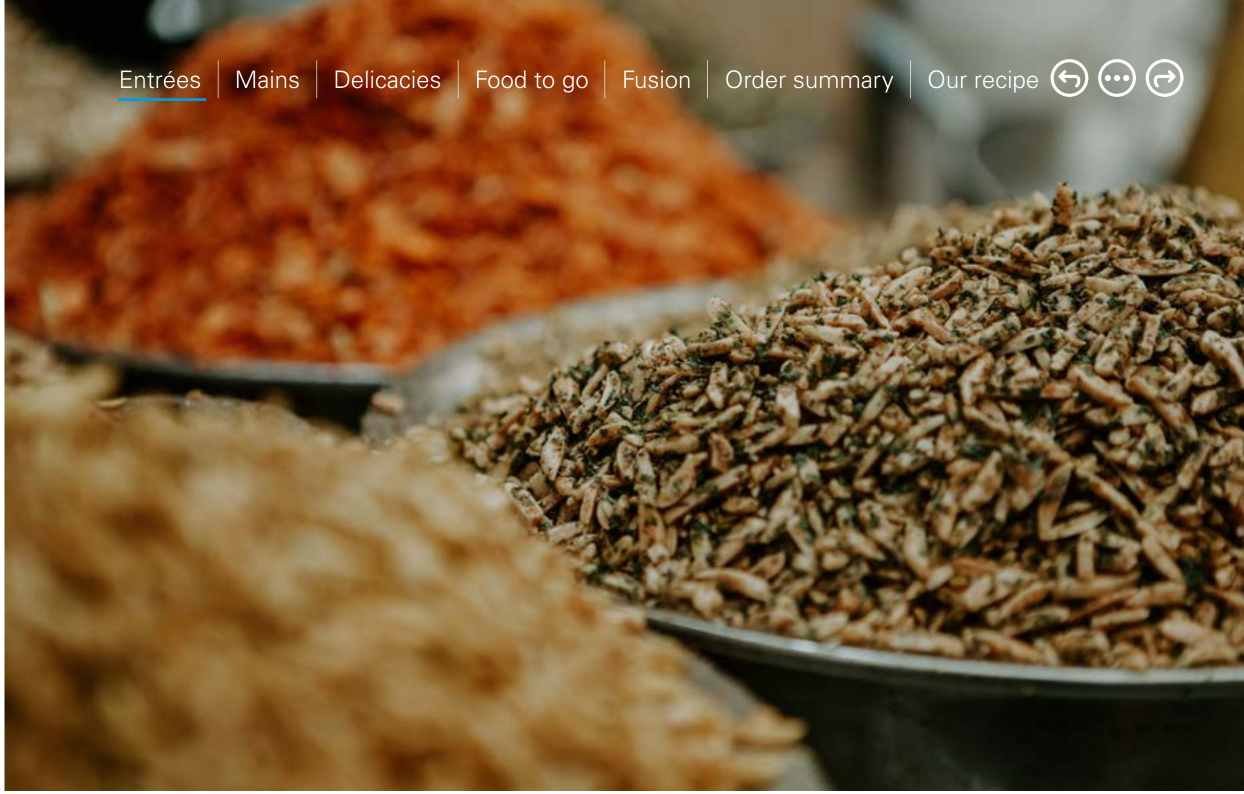


What are your views on dining out over the next three months?



When do you expect to resume pre-Covid-19 dining out habits?





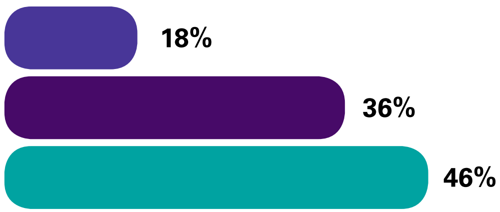
A mixed story

Despite this progress, forty-six percent of operators interviewed in 2019 noted declining LFL sales over the last 12 months. If consumers were still eating out, why was this not reflected in 2019 operator performance? This can be explained by several challenges in the market.

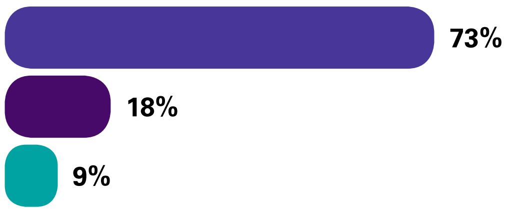
2019 was a year of economic reforms in Kuwait. Changes in legislation and public sector wages, as well as reductions in public-sector and private-sector employment,[17] impacted spending habits and sparked a trend toward price sensitivity. Further analysis of dining-out habits showed that over 50% of those consumers surveyed were most likely to frequent either QSR or casual dining formats.

At the turn of the decade, with the impact of recent policy changes affecting consumers behind them, operators were hopeful for the coming year – 73% of operators expected growth in 2020. Half of the operators, despite the current crisis, still do. This indicates that the roadblocks from the pandemic are merely temporary setbacks on the road to recovery.

How did your F&B business perform in 2019?



What was your short-term outlook (next 12 months)?



Considering the implications of Covid-19, what is your revised outlook for the F&B sector for the next 12 months?

50%

LFL sales growth of **up to 10%**

50%

Will remain **unchanged**

[17] As per the Kuwait Civil Service Commission, the government accounts for 76.1% of all employment

Challenges ahead

As noted, the Kuwaiti market has been challenging over the past several years leading up to 2020. With a population of 4.7 million residents, the market is relatively small.[18] Coupled with trying economic conditions, this resulted in subdued consumer sentiment in 2019.

Still, Kuwait represents the third largest market in the GCC, with F&B comprising more than 5% of non-oil GDP.[19] The market was over-supplied and increasingly burdened by heightened competition in 2019, facing a saturation story similar to the UAE but without comparable market forces to drive demand and bolster consumption (such as the UAE's unmatchable tourist draw).

However, a number of new projects in line with Kuwait's Vision 2035 are still scheduled for completion, though delayed, including new cities that will potentially add a considerable amount of new F&B space.

Given the extraordinary challenges of staying afloat in 2020, like in the other GCC markets, operators' more immediate concerns center around social distancing, managing cash flow and costs, and maintaining the health and safety of their customers and employees.

What are your key concerns during the pandemic?

100%
Social distancing

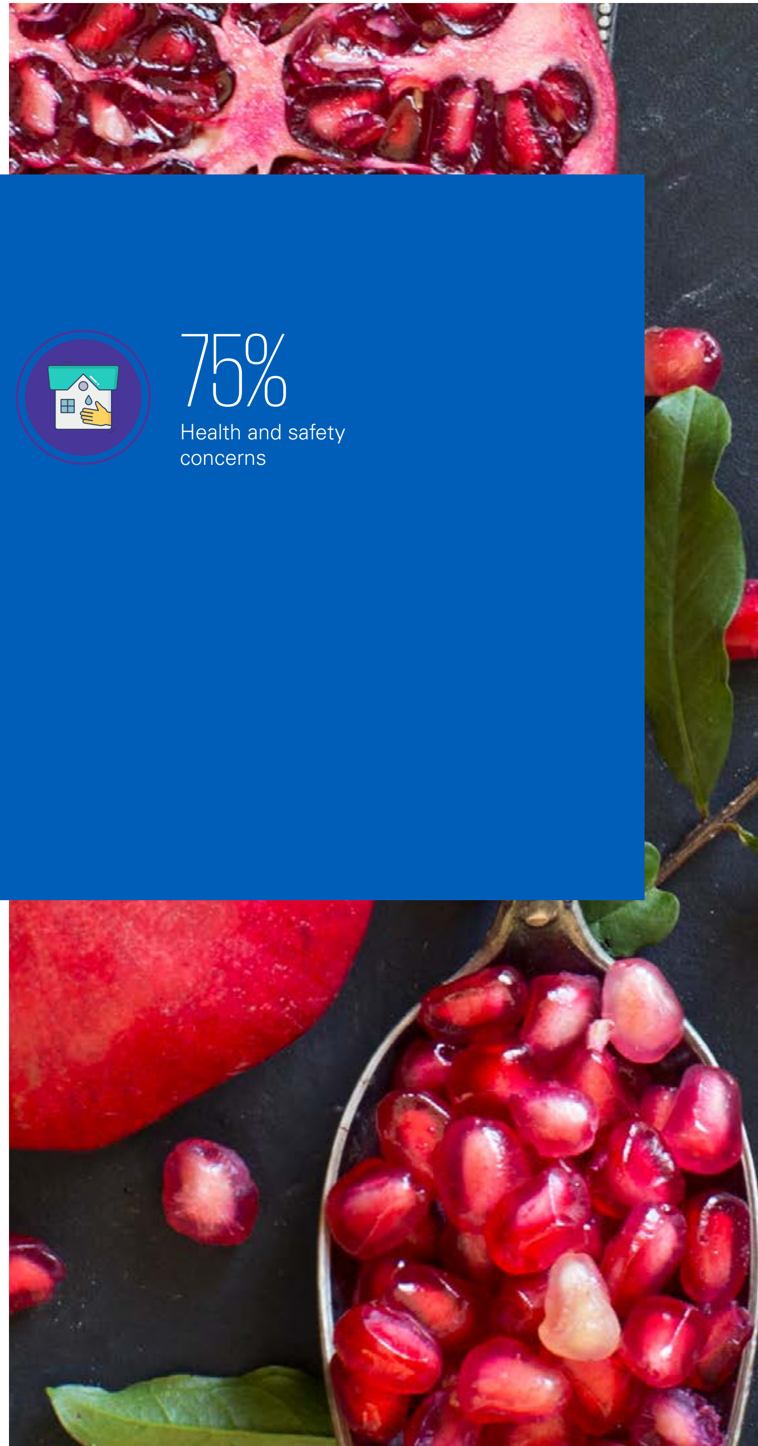
75%
Managing cashflow and costs

75%
Health and safety concerns

25%
Reduced demand

25%
Supply chain issues

MCQ



[18] Oxford Business Group
[19] Central Statistical Bureau Kuwait

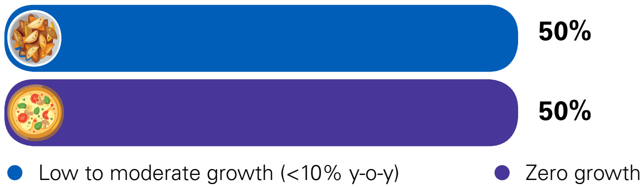
Silver lining

When surveyed in 2019, most operators were neutral with respect to the medium-term outlook, despite a relatively stable market. This may have been attributable to an anticipated increase in supply over the medium term.

Focused as operators were in 2019 on expanding their existing outlet network across emerging developments, the pandemic has forced them to reevaluate their strategy. Despite this uncertainty, half the respondents are still optimistic about the prospects for medium-term growth.

While Kuwait has established its place at the center of the region's gastronomic table, we expect international brands will continue to look at the country cautiously.

Considering the implications of Covid-19, what is your revised medium-term outlook for the F&B sector?



KPMG view

The story in Kuwait is similar to that of the UAE market, where increased competition and supply has impacted the sector, although consumer demand remained robust in 2019.

Kuwait's F&B landscape has transformed dramatically, boasting its own, distinct F&B scene. While the GCC culinary market is dominated by international chains, Kuwait is the source market for some of the home-grown concepts and biggest GCC-based F&B franchises. This is, in large part, due to its vibrant foodie culture, with F&B being an integral part of the social fabric.

Despite a difficult 2017 and 2018, operators remained hopeful that the market had largely stabilized in 2019. Though near-term outlook and operators' strategies have been significantly re-evaluated since the pandemic, 50% of operators still expect growth in the medium term – one of the more positive outlooks in the region, demonstrating a resilient mindset.

The Sultanate of Oman

Craving value

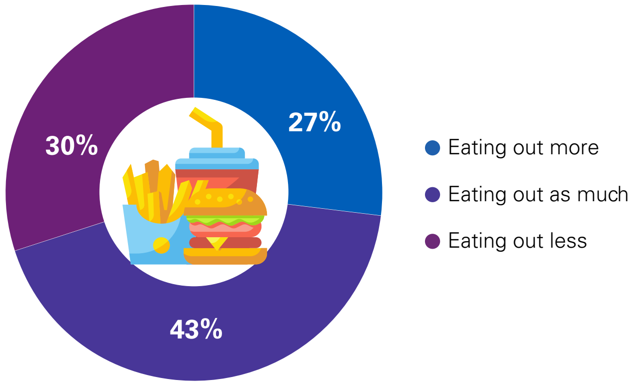
Inherently, the Sultanate of Oman does not boast strong market forces to bolster the F&B segment. While the market is relatively small, government initiatives in 2019 were focused on economic recovery.

Seventy percent of consumers surveyed in 2019 commented they were still eating out as much or more and spending as much or more as compared to 2018. However, compared with other countries surveyed, a significantly larger proportion of consumers noted no change in eating out or spends compared to 2018.

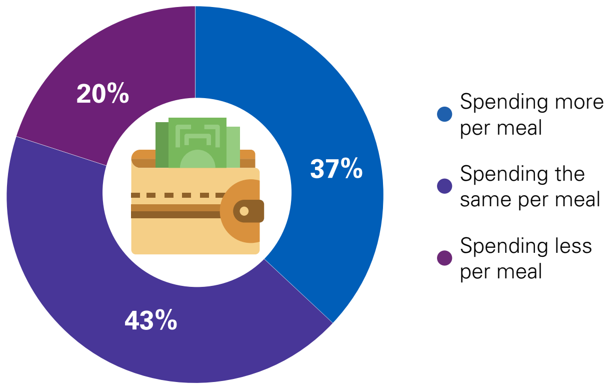
While most consumers dined out up to four times a month in 2019, value-seeking behavior prompted consumers to venture toward the QSR and café segments.

Under the current altered reality, however, expectations have been adjusted. Three quarters of respondents expect to resume their previous dining out habits before the end of the year and fifth of respondents expect to do so by early 2021.

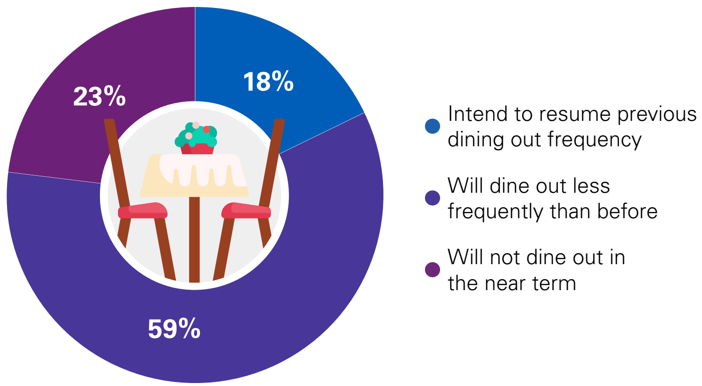
2019 dining habits as compared to 2018



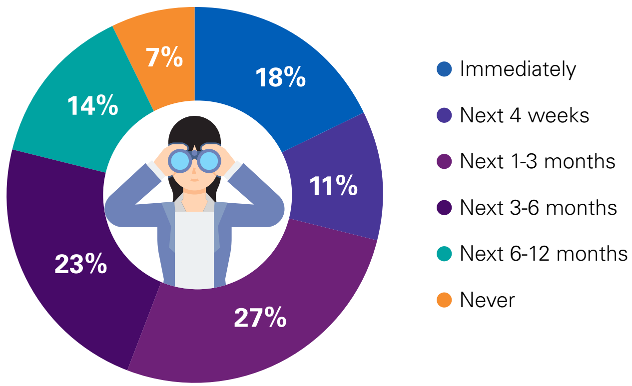
2019 average spend as compared to 2018



What are your views on dining out over the next three months?



When do you expect to resume pre-Covid-19 dining out habits?



Holding on to hope

Despite modest economic growth in 2018[20], operators in 2019 were nearly equally divided in terms of LFL movement, with 38% seeing a decline and 37% experiencing growth over the last 12 months.

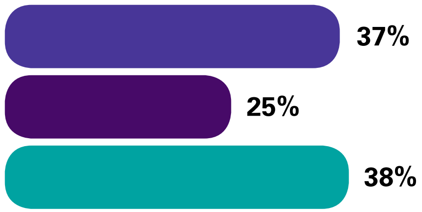
In 2019, the introduction of 100% excise duty on licensed beverages and 50% on soft drinks constrained F&B sales and deteriorated margins. At the same time, geo-political factors also directly affected consumption in the region and resulted in reduced travel and tourism.

Despite these factors, operator sentiment was largely optimistic in 2019, with 75% expecting growth through 2020. But this view has changed with the crisis, with half of the operators predicting decline in LFL sales of 40-60% over the next 12 months.

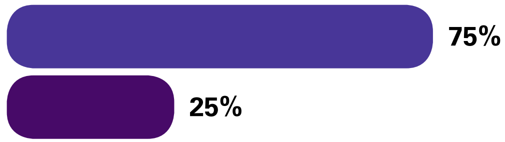
Until the economy can recover, operators' concerns are likely to remain focused on reduced demand, social distancing, and managing cashflow and costs.

[20] World Bank 2019 Oman Economic Update

How did your F&B business perform in 2019?



What was your short-term outlook (next 12 months)?



What are your key concerns during the pandemic?

100% Reduced demand

100% Social distancing

50% Managing cashflow and costs

25% Health and safety concerns

25% Others

MCQ

Considering the implications of Covid-19, what is your revised outlook for the F&B sector for the next 12 months?

25%

LFL sales decline of **between 21-40%**

50%

LFL sales decline of **between 41-60%**

25%

LFL sales decline of **between 61-80%**

Future in the making

In 2019, the Sultanate had already begun to take steps to promote growth and combat the recent downturn, including efforts to promote tourism.

Initiatives included the new e-visa system, expansion of Muscat International Airport, and increased public-private partnerships to plan events and build attractions. Although many of these projects have faced delays, Oman is still committed to growing the sector post-pandemic, particularly through its 2040 Tourism Strategy; which seeks to drive OMR 20 billion (USD 51 billion) of investment, mainly in the private sector, attract approximately 12 million international and domestic tourists, and create more than half a million jobs over the next two decades. The strategy will, ideally, impact broader spending habits and the F&B sector as a whole.[21]

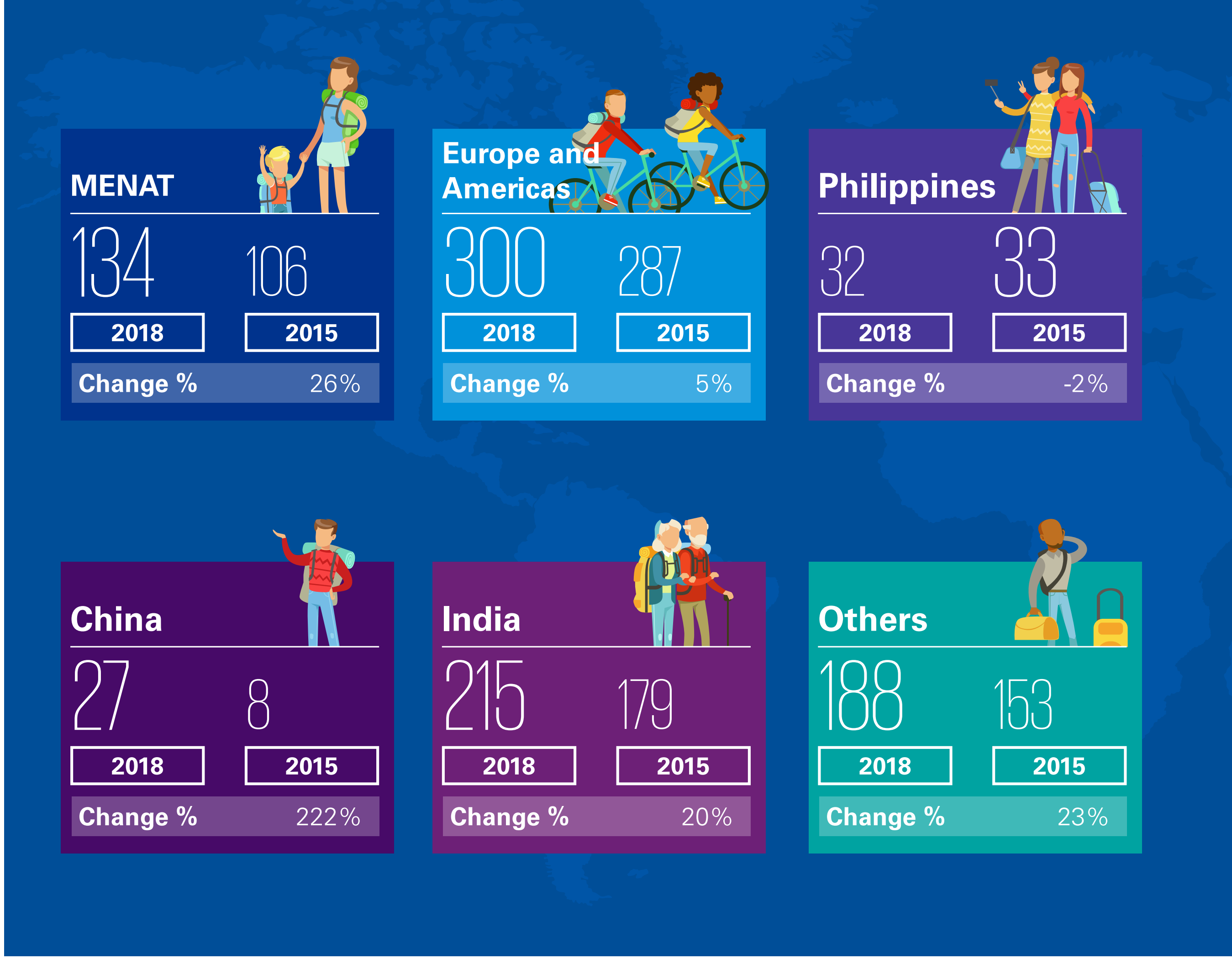
The presence of international F&B brands in the Sultanate is relatively weak compared with other GCC countries. Going forward, retail supply was expected to grow at a moderate pace, in line with Vision 2040.

Key upcoming hospitality and retail expansions in Oman (for which construction has already begun) have been put on hold. Even though tourism is unlikely to recover before the end of 2021[25], the sector's medium-to long-term growth projections are still promising.

Demand vs. supply growth[21,22]

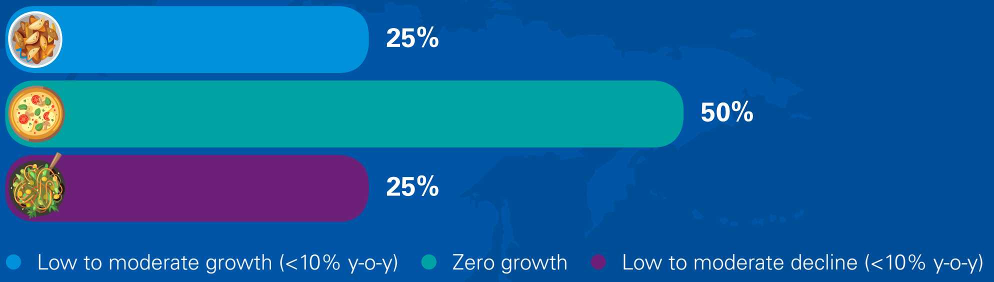
	2018	2021	CAGR (%)
Residents and tourists (mn)	7.2	8.9	7.5%
Retail supply (GLA in mn sqm)	0.4	0.9	33.4%

Tourist arrivals by top source markets (in '000s) –Muscat (2015 vs. 2018)[23,24]



[21] Statista, Ministry of Tourism - Oman
[22] Alpen Capital
[23] MasterCard 2019 Global Destination Cities Index Report and KPMG analysis
[24] MENAT is defined as the Middle East, North Africa and Turkey
[25] Scott Livermore, ICAEW economic advisor and chief economist at Oxford Economics

Considering the implications of Covid-19, what is your revised medium-term outlook for the F&B sector?



A neutral outlook

The size of the Omani market already constrained many operators' medium-term growth outlook in 2019. With the onset of Covid-19, operators have been forced to reappraise the prospects, with a quarter of respondents expecting negative growth and half expecting none at all.

Furthermore, infrastructure remains a key area of focus for Oman and the government has introduced several initiatives to improve it. Although unlikely to come to fruition in the short term due to Covid-19 induced delays, they could impact business performance in the medium term.

A key challenge in the medium term will be the roll-out of VAT, scheduled for 2021, which should also have a near-term impact on already distressed consumption levels, as seen with its introduction in the UAE.

KPMG view

Compared to the UAE and Kuwait, Oman fared marginally better on the back of growth in consumer demand in 2019.

Despite this, operators had reserved opinions on Oman's F&B market outlook, owing to its size, limited tourist arrivals and the expected roll out of VAT. All these challenges have only been exacerbated by the pandemic.

For most operators, Oman is not a focus market and performance has a limited impact on their portfolio. However, the upcoming supply of prime retail space, coupled with government focus on infrastructure development and tourism, may create opportunities in the medium term once the market re-stabilizes.

Mains

We look at what works in terms of cuisines, and explore consumer behavior, needs and expectations in 2019 and beyond.

What are your preferred cuisines?

UAE
- Indian 21%
- Italian 14%
- Lebanese/ Levantine 14%

KSA
- Local/GCC 24%
- Lebanese/ Levantine 23%
- American 14%

Kuwait
- Lebanese/ Levantine 24%
- Local/GCC 20%
- Italian 15%

Oman
- Local/GCC 22%
- Lebanese/ Levantine 21%
- Indian 16%

Mixed flavors

Observing the UAE market over the past few years, we have seen that the top choice for cuisines has remained largely consistent – Indian, Italian and Lebanese still rank as the most preferred – a trend that is reflective of the demographic construct of the country.

As we look at the wider GCC region through the 2019 survey, we noted that though results may have differed, they were clearly driven by the demographic mix of the respective countries. We noted a clear preference for local cuisine in the KSA, where Saudi nationals comprise 69% of the country.[25] Lebanese and local cuisines were favorites in Kuwait and Oman, where the economies are smaller and largely made up of nationals and Arab expatriates with preferences for home-country cuisines.

[25] World Bank, Global Media Insight 2018 Data

Top five emerging food trends in 2019

Healthy food picks up, but yet to peak

According to operators, the healthy eating trend continued to gain prominence across the region. Underscoring this view, over 50% of consumers surveyed ate healthily, at the very least during the week.

To meet growing demand, some operators ventured ahead with new health food concepts, while others altered their menus to include vegan and vegetarian options. Though still not a major opportunity, the trend should not be overlooked by operators today.

Moussaka's hot!

Mediterranean-influenced food, such as Greek cuisine, has gained popularity in recent years – particularly in the UAE. While it found favor in 2019, operators were skeptical about the sustainability of this trend.

Asian domination

Asian cuisine has been expanding beyond the traditional Chinese and Thai offerings and continued to be a top choice across the region in 2019. Operators saw it as a key segment for expansion opportunities.

Operators also saw potential for Japanese food within the premium dining segment. As they look to bring in more mid-market, pan-Asian options, this cuisine should see greater acceptance in the future.

Fusion vs. authentic

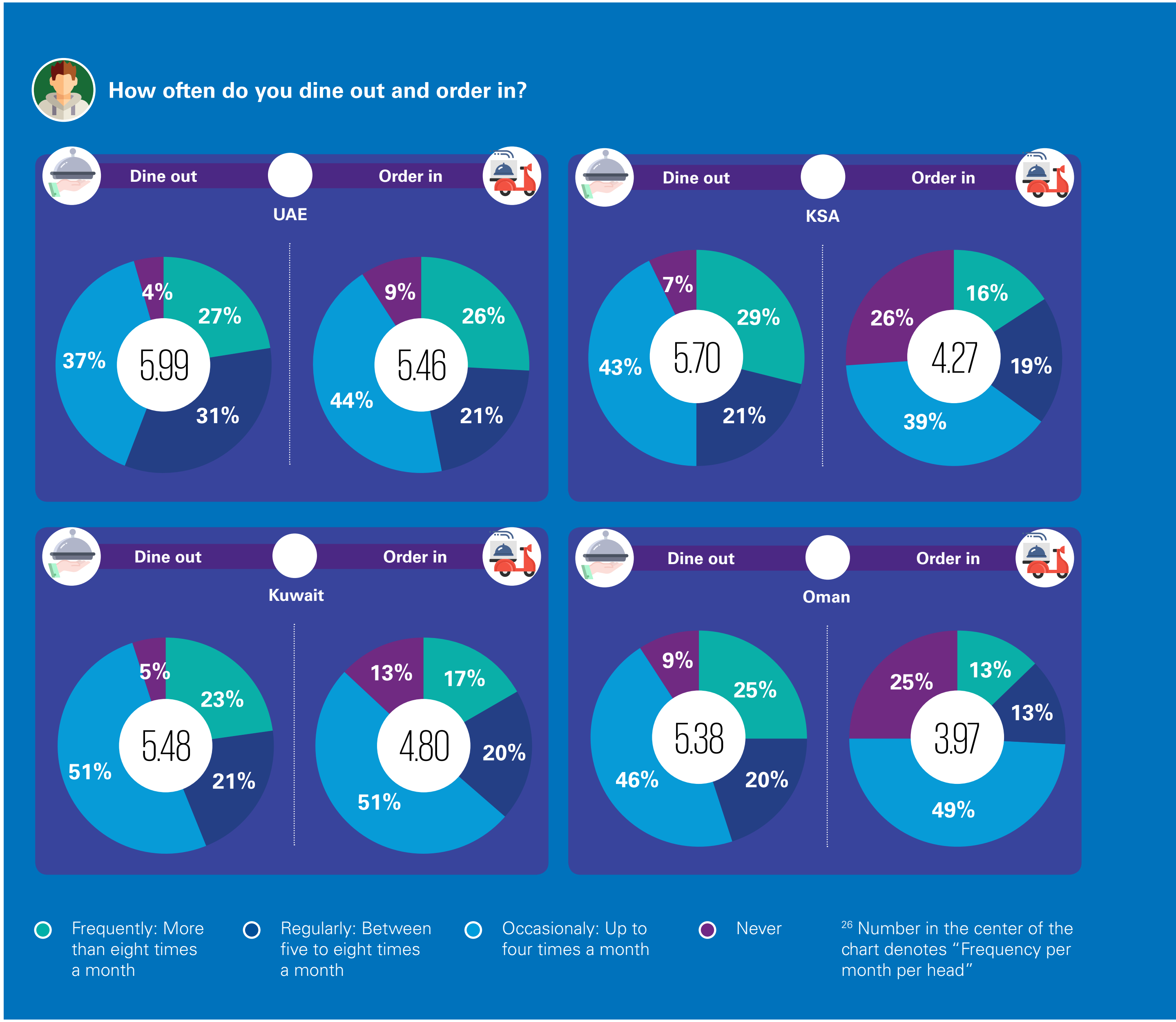
While 2019 saw a drive for more authentic flavors/experience among categories such as Italian, French, and Asian, fusion concepts were also on the rise within Indian and Levantine cuisines.

What's cooking?

Pandemic or not, eating out remains an important part of the social fabric of the region. Within the GCC, the UAE boasts the most favorable statistics for both dining out and ordering in. In 2019, the average UAE consumer dined out around six times a month and ordered in five meals a month. This trend is consistent with our findings from our previous consumer survey and we expect the market to renormalize to this level over the coming year.

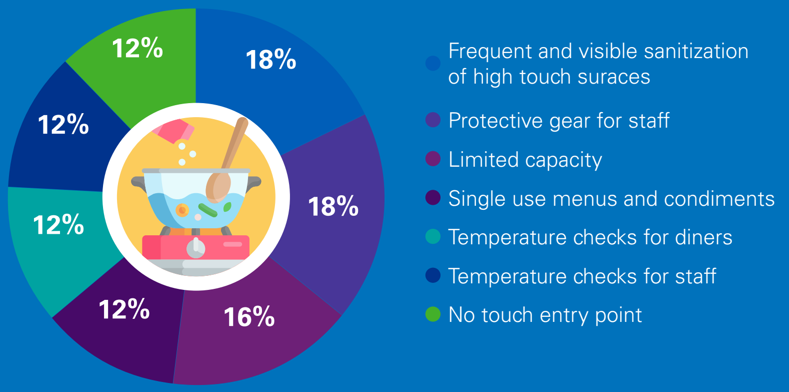
Amongst other GCC countries, while most compared well with the UAE in terms of dining out, they lagged behind on ordering in. In 2019, Kuwait came the closest in terms of delivery at just under five meals ordered in per month.

Prior to Covid-19, the growing dominance of food delivery was also evident in the frequency of delivery orders across GCC markets. This surge is supported by demographic data, as the region boasts a large working population that seeks convenience and comfort in line with their hectic lifestyles.

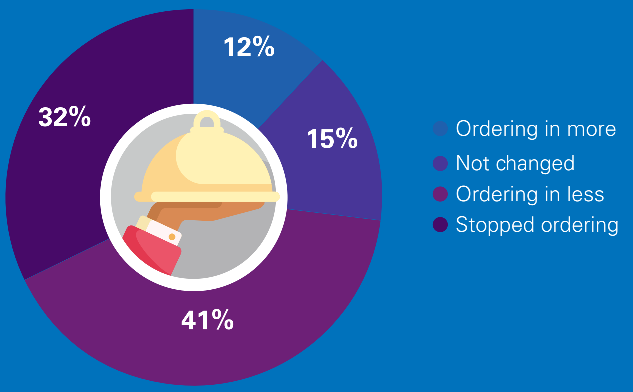


[26] Average number of times dining out and ordering in per month was calculated using a weighted average on frequency for each country. Our questionnaire collected responses for the following four categories: never, up to four times a month, between five to eight times a month and more than eight times a month. Responses collected for dining out are only based on dinner. This variance between the dining out output above and the chart found on page 36 of this report is due to the inclusion of concepts such as café and bar lounge dining in the calculations of weighted frequency found on that graph.

What could operators do to make you more comfortable to return to dining out?



How have your ordering in habits changed during Covid-19?



Thirty-two percent of respondents stopped ordering in as a result of Covid-19 in the first few months of the pandemic while 41% scaled down. It is worth bearing in mind that our responses were drawn at the tail end of lockdown across the region and we expect growth in ordering in as consumers remain more comfortable with eating in the safety of their homes.

Measures would need to be taken to encourage people to step out of the house as restrictions are eased. While frequent and visible sanitization of surfaces and protective gear for staff would do the most to assuage a wary clientele, so too would limited seating capacity, single-use menus and condiments, and temperature checks for staff and diners.

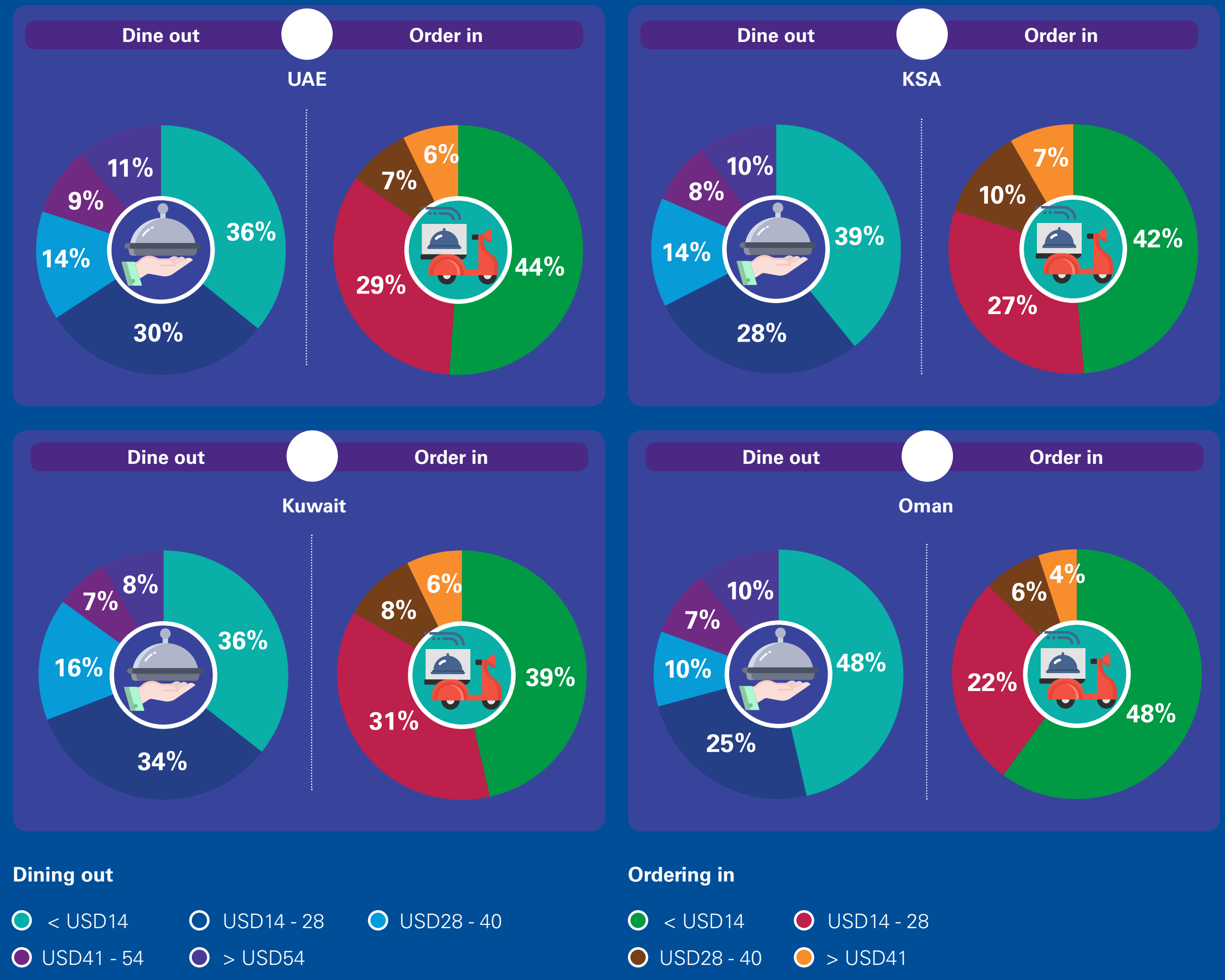
Money matters

In 2019, consumer spending on dining out and ordering in gave rise to interesting trends. It was unsurprising that customers in all four markets tended to spend more on dining out. Across the region, while the sweet spot for eating out and delivery was less than USD 14, a larger proportion spent between USD 14-28 while eating out – especially in the UAE and Kuwait.

Prior to the Covid-19 outbreak, the UAE consumer tended to eat out and order in more frequently. On average, they also spend more vis-à-vis other markets, resulting in the highest spend per month in the region.

Oman, on the other hand, had the lowest average spend per month. Interestingly, the spend on delivery in Oman is nearly half of dining out, suggesting room for growth in Oman's delivery segment.

Average spend on dining out and ordering in (per person)[27]



[27] Actual spend per month has been calculated based on the average number of times consumers would dine out or order in in a month, with their noted respective average spends per month.

Over the next 12 months, how do you expect your spend on dining out to change?

	Spending less	Spending the same	Spending more
UAE	69%	23%	8%
KSA	74%	20%	6%
Kuwait	77%	19%	4%
Oman	66%	30%	4%

Over the next 12 months, how do you expect your spend on ordering in to change?

	Spending less	Spending the same	Spending more
UAE	53%	37%	10%
KSA	62%	30%	8%
Kuwait	60%	33%	7%
Oman	59%	34%	7%

With pinched pockets, the vast majority of respondents in all four markets predict they will spend as much or less on dining out and ordering in over the coming 12 months. While diners in the UAE and KSA are slightly more optimistic, they too are expected to temper their spending. Ordering in, at least, is likely to remain steady in the UAE, with 47% expected to spend as much or more, with the same holding true for 40% of consumers in Oman and Kuwait.

The typical F&B consumer in the GCC

Prefers to head out

~2x

more likely to dine out rather than order in

Seeks quality and value

~54%

of consumers rate value for money and quality of food and service as essential

Responds to word of mouth

~30%

of consumers' dining decisions are driven by recommendations from others

Is more health conscious than before

>50%

prefer to eat healthily during the week and only indulge over the weekends

Is a deal seeker

~80%

are encouraged by deals when choosing a restaurant or actively seek deals for their preferred restaurants and cuisines

Does not value loyalty programs

~72%

of consumers have never used them

Is tech savvy

~82%

of consumers use a food app on their smartphone/tablet

Is willing to go the extra mile

~65%

do not mind travelling more than 20 minutes to eat out

Delicacies

What works in terms of formats and how they fared

Re-formatted!

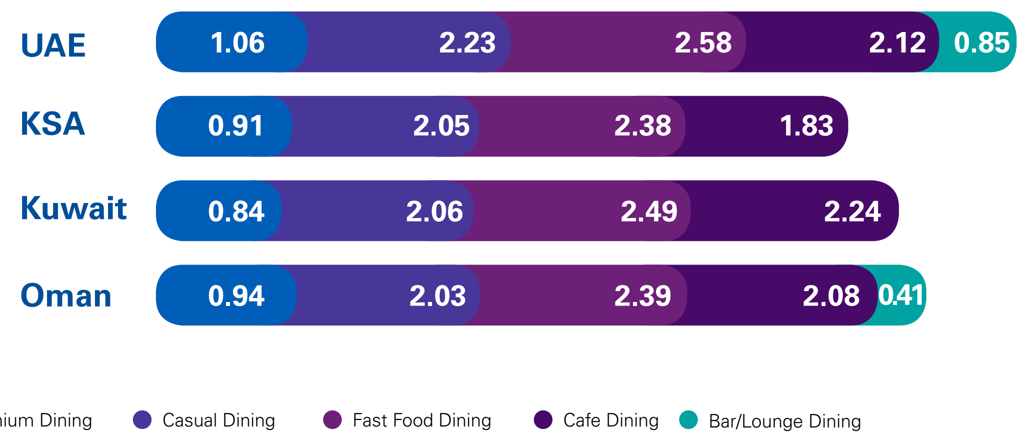
Trends across formats have largely remained consistent. According to operators, QSR and fast casual concepts remained popular in 2019, as consumers continued to be price-conscious and increasingly savvy when seeking F&B deals and bargains. Consumers support this point of view, citing fast food dining as the most frequented format across markets.

Operator feedback also suggested that premium dining was the format most affected by challenging market conditions. In 2019, they witnessed a decline in both the number of covers as well as average spend.

Operators also realized that consumers today are looking beyond the traditional dining experience, making experiential dining a new trend, particularly in the UAE.

They also noted the success of food trucks and pop-ups in other parts of the GCC – particularly in the KSA, where the introduction of entertainment venues and events created new possibilities for F&B players who have done more to adapt to local preferences. Although these experiments have largely been put on hold, we expect them to make a strong comeback toward the second half of 2021.

How often do you eat out at these (in a month)?[28]



[28] Average number of times dining out per month was calculated using a weighted average on frequency across each format for each country., Our questionnaire collected responses for the following four responses: Never, only on special occasions, 1–3 times a month and more than 3 times a month. This variance between the output above and the chart found on page 30 on close of this report is owing to the inclusion of concepts such as café and bar lounge dining in the calculations of weighted frequency found on this graph.

What were operators saying about formats?

QSR/fast food

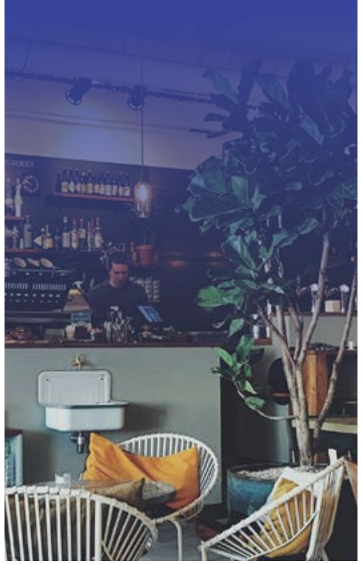
Fast food continued to perform well in 2019 due to increased price-consciousness and value-seeking consumer behavior.

The rapid growth of delivery also bolstered the segment and led to the emergence of local QSR brands.

Café

Café culture in the region is evolving and has gained popularity, backed by a young and affluent population that perceives cafés as trendy social concepts. Specialty coffee and tea concepts have also gained popularity.

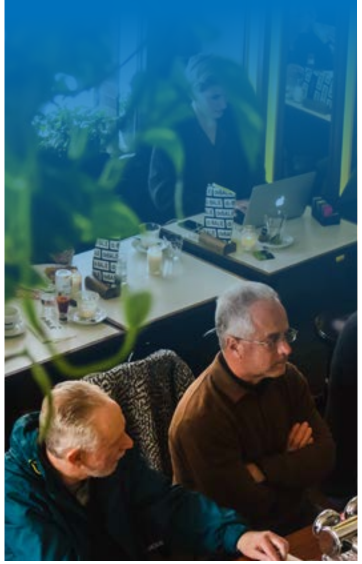
Some operators have noted overcrowding in the segment, despite growth.



Casual dining

While the casual dining segment was impacted by the recent shift towards QSRs, some operators managed to grow in 2019 by offering a better value proposition.

There have been some concerns that the segment was reaching a point of over-saturation prior to Covid-19.



Premium dining

Premium dining continued to be impacted by market conditions – both average spend and footfall saw a decline, even as certain specialist or branded restaurants continued to perform well.

There was a growing pre-pandemic shift away from fine dining and toward a more premium casual concept.

‘Food-onomics’

As in our previous F&B reports, we have examined the economics of various formats to see how each has fared across a range of financial and operational metrics. While the economics have been drastically impacted during the pandemic, we expect these trends to be relevant for operators as business normalizes in the coming months.

Across formats we witnessed a relative widening in the range of transactions in 2019, mimicking the volatility of the market situation last year. That said, food and beverage costs were largely consistent year on year.

Although rental costs remained consistent in 2019 as compared to 2018, they continued to be a key concern for operators, this holds true even in the current challenging times in 2020. While some operators were able to successfully renegotiate leases over prior years, many continued to struggle with managing this cost against newly normalized market performance in 2019.

Finally, even though revenue ranges generally widened in 2019, margins largely stayed the same or slightly declined for most formats. There were, however, exceptions in the casual and café concepts, where some operators performed better than in 2018, especially in the café segment. During the pandemic operators have taken various measures to try and maintain margins including staff costs managed through redundancies, unpaid leave, salary cuts, split shifting and other such measures.

A number of measures were taken by regional stakeholders such as the government, landlords, and more to ease this pressure. Some key examples include rental rebates, monthly payment moratoriums, refinancing packages and supplier renegotiations. However, short-term market contractions are likely to significantly outpace these savings.

QSR and Fast Casual

# of transactions (per month)	**7,200 - 28,000**
Average ticket/check size (AED)	**25 - 50**
Beverage sales (% of total sales)	**25% - 35%**
Food cost (% of revenue)	**20% - 35%**
Rentals (% of revenue)	**10% - 25%**
Staff cost (% of revenue)	**15% - 23%**
Marketing cost (% of revenue)	**1% - 5%**
Margins (% of revenue)	**5% - 12%**
Average space per outlet (sqft)	**500 - 2,000**
Average # of staff per outlet	**15 - 50**
Revenue per staff (AED per month)	**12,000 - 28,000**
Revenue per sqft (AED per month)	**350 - 700**

Café

# of transactions (per month)	**4,000 - 16,500**
Average ticket/check size (AED)	**27 - 105**
Beverage sales (% of total sales)	**25% - 80%**
Food cost (% of revenue)	**17% - 29%**
Rentals (% of revenue)	**10% - 25%**
Staff cost (% of revenue)	**15% - 35%**
Marketing cost (% of revenue)	**1% - 4%**
Margins (% of revenue)	**4% - 30%**
Average space per outlet (sqft)	**1,000 - 5,000**
Average # of staff per outlet	**6 - 60**
Revenue per staff (AED per month)	**11,500 - 30,000**
Revenue per sqft (AED per month)	**90 - 350**

Casual

# of transactions (per month)	**4,000 - 25,000**
Average ticket/check size (AED)	**70 - 165**
Beverage sales (% of total sales)	**5% - 20%**
Food cost (% of revenue)	**21% - 32%**
Rentals (% of revenue)	**4% - 25%**
Staff cost (% of revenue)	**16% - 35%**
Marketing cost (% of revenue)	**0.5% - 5%**
Margins (% of revenue)	**7% - 25%**
Average space per outlet (sqft)	**3,000 - 9,200**
Average # of staff per outlet	**13 - 100**
Revenue per staff (AED per month)	**7,000 - 40,000**
Revenue per sqft (AED per month)	**100 - 450**

Premium Dining (with License)

# of transactions (per month)	**3,750 - 12,000**
Average ticket/check size (AED)	**170 - 750**
Beverage sales (% of total sales)	**30% - 55%**
Food cost (% of revenue)	**20% - 35%**
Rentals (% of revenue)	**0% - 18%**
Staff cost (% of revenue)	**15% - 30%**
Marketing cost (% of revenue)	**1% - 4%**
Margins (% of revenue)	**7% - 25%**
Average space per outlet (sqft)	**3,000 - 14,000**
Average # of staff per outlet	**45 - 180**
Revenue per staff (AED per month)	**15,000 - 50,000**
Revenue per sqft (AED per month)	**200 - 650**

Premium Dining (without License)

# of transactions (per month)	**2,700 - 11,500**
Average ticket/check size (AED)	**105 - 275**
Beverage sales (% of total sales)	**15% - 25%**
Food cost (% of revenue)	**20% - 36%**
Rentals (% of revenue)	**8% - 25%**
Staff cost (% of revenue)	**20% - 33%**
Marketing cost (% of revenue)	**0.5% - 2.5%**
Margins (% of revenue)	**6% - 30%**
Average space per outlet (sqft)	**3,750 - 9,000**
Average # of staff per outlet	**21 - 100**
Revenue per staff (AED per month)	**13,500 - 30,000**
Revenue per sqft (AED per month)	**150 - 350**

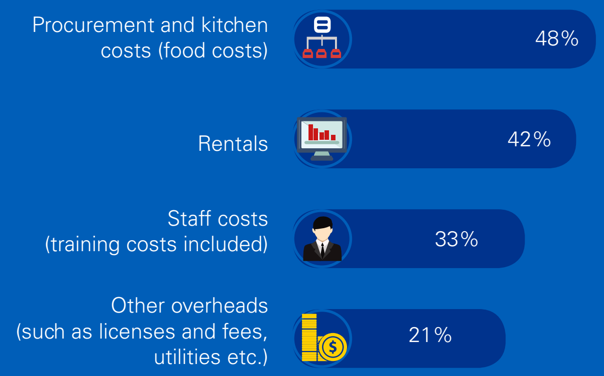
Chasing the bottom line

Over recent years, operators have looked at cost optimization to weather the impact of troubled economic conditions. Businesses were adopting leaner and more efficient models in a bid to withstand a slowdown. Initiatives included closure of non-performing outlets, optimization of labor and renegotiation of rental contracts.

Despite these initiatives, the pandemic has affected operators badly, leaving many on edge. With the topline dwindling during the lockdown, operators have had to take drastic measures to keep their businesses afloat. Nearly every operator looked hard at their portfolio with a view to further optimize and renegotiate for rental relief and reduced rentals for the period post lockdown. All expansion plans have been put on hold for the time being, even in cases where fit-outs work had commenced.

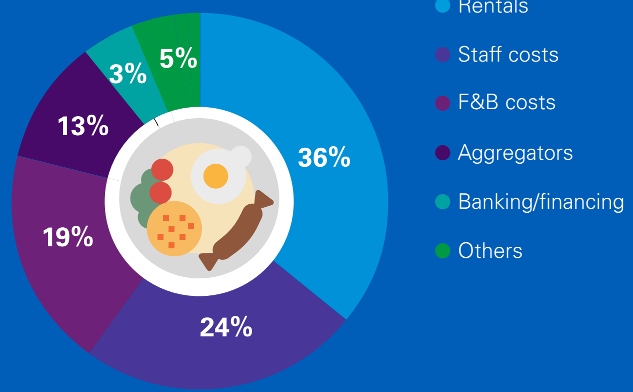
One of the major dilemmas faced by operators is around staff costs. Businesses have looked to retain staff to the extent feasible but have had to manage costs through unpaid leave, reduced salaries, split shifting, layoffs and other such measures during the lockdown period. Operators also looked to improve supplier terms, and explored alternate sourcing arrangements to curb the high cost of imports.

What are the key areas of cost optimization for your business?



MCQ

Given the current situation, what costs are you finding it difficult to control/manage?



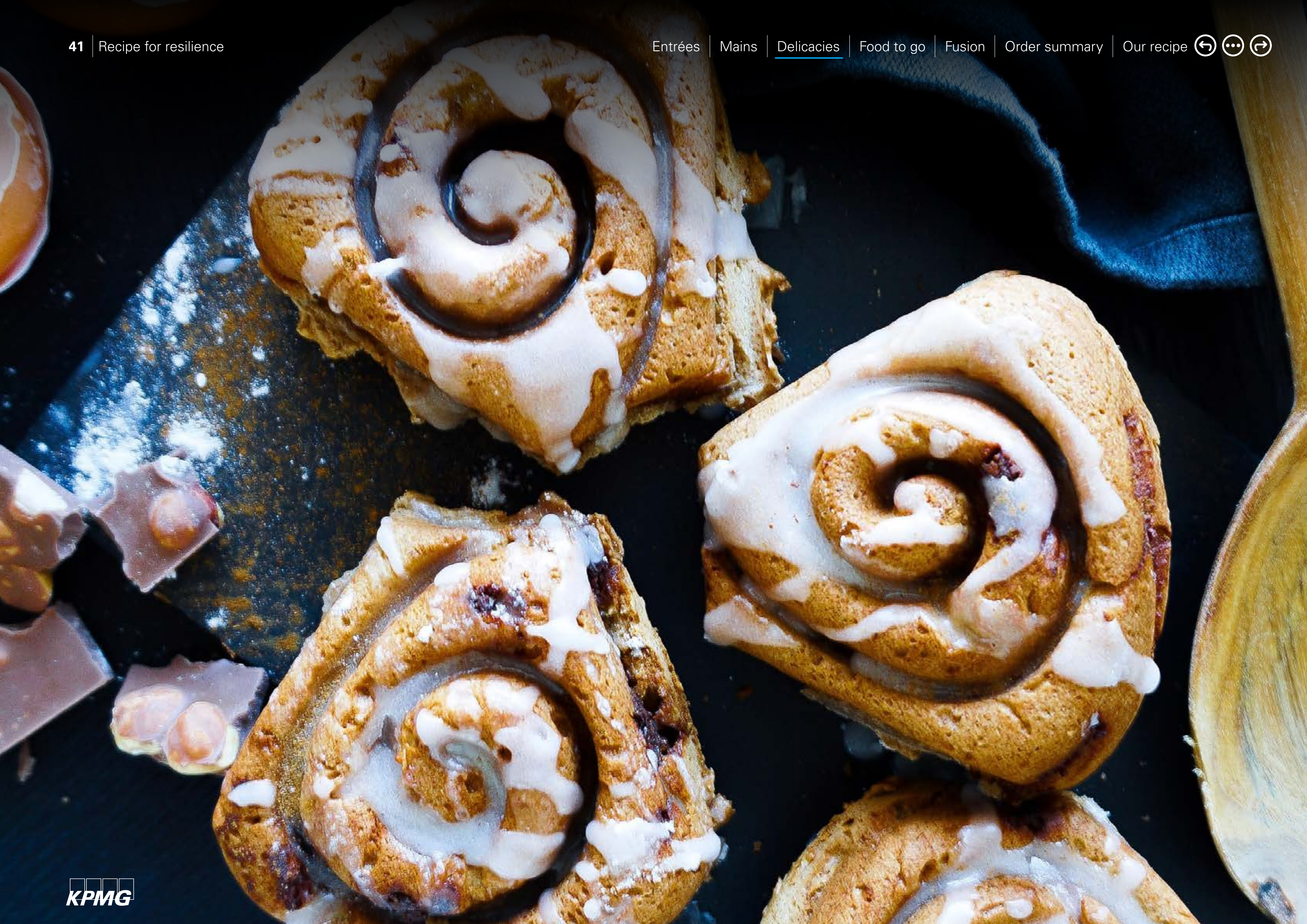
KPMG view

Trends across formats and offerings were consistent in the three years leading up to 2020, with QSR and fast casual concepts dominating the market as customers prioritized value. The fine dining format, even before the pandemic, was and will likely remain, the most adversely affected. Ordering in was on the rise given the region's large and busy populations. Café culture is here to stay, backed by a young and affluent population that values these venues as places for socializing and entertainment.

2019 also saw 'eatertainment' becoming increasingly popular with diners, as operators moved beyond food to create unique experiences to lure in customers.

Looking to key financial metrics, we also witnessed a relative widening in the ranges across the number of transactions and revenues, reflecting the volatility of the market. While footfall, procurement, staffing, and rental costs concerned operators pre-Covid-19, rentals, staff costs, and F&B costs dominated concerns in 2020.

Despite the fact that operators' efforts to optimize costs were beginning to pay off in 2019, Covid-related restrictions have placed new burdens on operators of every stripe.



Food to go

We examine evolving dynamics in the delivery ecosystem and emerging business models

Delivering growth

Technology has been a driving force in transforming the F&B landscape in the GCC. As the region's tech-savvy consumers increasingly value access to information, convenience, and the digital experience, this is only likely to accelerate. Delivery has remained one of the fastest growing segments in the region. Nearly all operators whose concepts are delivery-friendly are listed with a delivery platform – in most cases, across multiple. Further, during the lockdown and restriction period, some premium dining concepts took to delivery as it was the only way to reach customers.

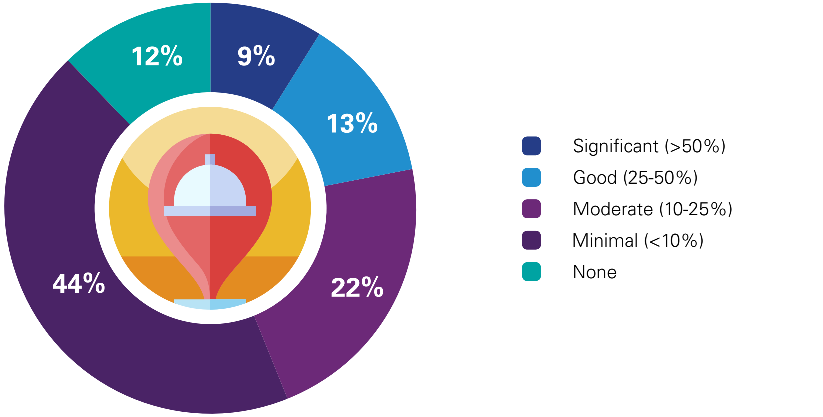
In 2019, this approach seemed to be working well with nearly half of the operators we spoke to seeing double-digit growth in their delivery segments. This is not surprising, as delivery apps witnessed increased penetration and usage – more than 80% of consumers mentioned they use apps to order food in 2019.

Another clear manifestation of delivery's growing importance to F&B businesses was in terms of its share of total F&B revenue: 22% of operators indicated that delivery constituted more than a fourth of their sales in 2019, a consistently upward trend.

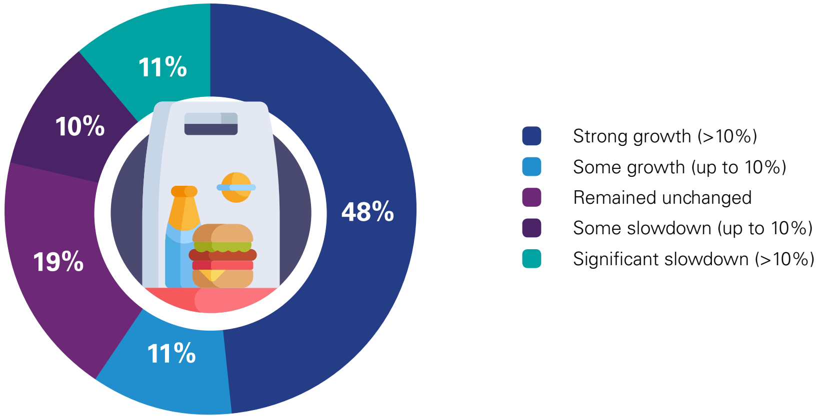
This importance has been further highlighted during the pandemic, with more businesses seeing growth in their delivery segment than decline and a more diverse range of formats entering the space owing to restrictions on dining out during the lockdown, making delivery the only source of revenue for operators.

Despite widespread uncertainty, the segment still has room to grow, given the preference for ordering in over dining out for at least the next six months if not longer.

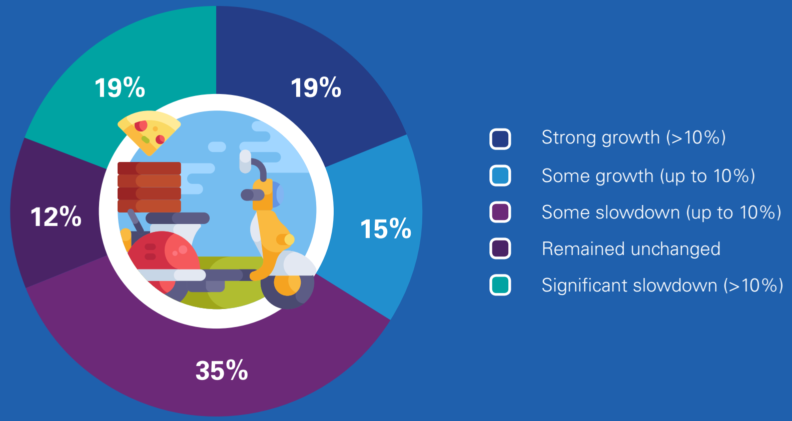
In 2019, what share of your business came from delivery?



In 2019, how had your delivery segment performed?

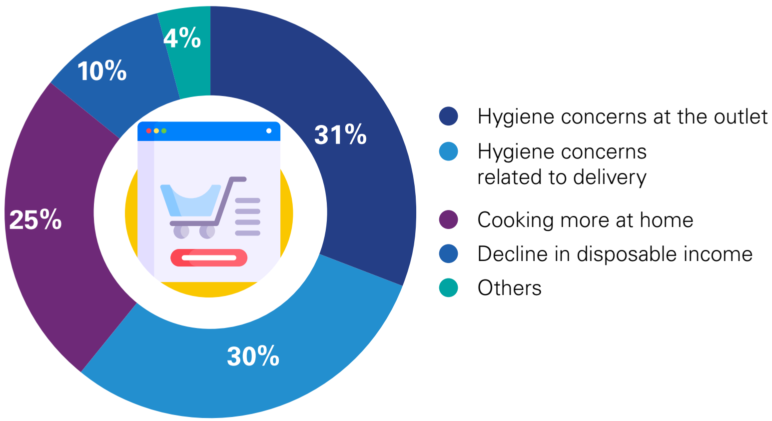


In the current situation, how has your delivery business performed year to date?

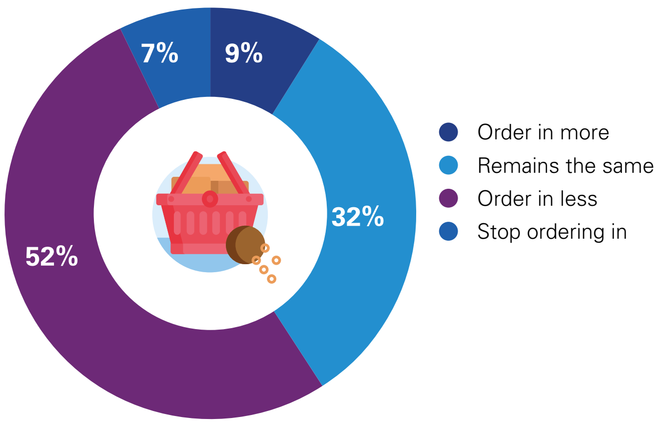


Consumer behavior during the pandemic

In the current situation, what are the reasons for you to order in less or stop ordering in?



How are your ordering in habits likely to change over the next 12 months?



A bumpy ride ahead

At the time of our survey, towards the end of the lockdown period across the region, customers were still less comfortable about ordering in. While 9% of consumers surveyed noted they would be ordering in more frequently, nearly 60% noted they would cut back or stop doing so altogether. Chief among their misgivings were hygiene concerns at the outlet or during delivery, in addition to health premium of cooking more at home. Despite the growth of delivery and its contribution to the F&B sector, the pandemic has created a hiccup which operators and aggregators will need to address.

In addition to this development, most operators in 2019 were concerned with the current aggregator-operator business model. Most operators we spoke to (eight out of 10) indicated that they paid out commissions of 15-25% on the value of each order, a figure nearly equivalent to their margin once operating costs are factored in.

Naturally, the biggest concern around outsourced delivery is its limited contribution to operators' bottom line. While the delivery segment certainly boosts their topline, it doesn't always translate into profits. Other charges such as listing fees, premium listing costs, and deals and promotions on platforms further increase the cost burden for operators.

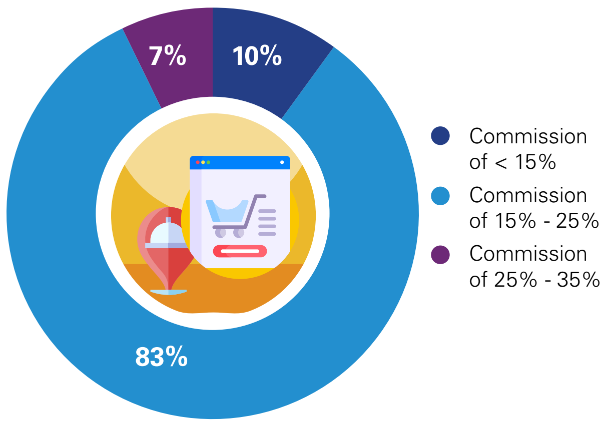
Operators were also concerned about their lack of control over customer data – information that is owned by the aggregators. While many aggregators work to provide operators with insight into customer preferences and buying patterns, they still own the underlying data.

Since the customer experience is also driven by the platforms, customers do not generally differentiate between the aggregator and the brand. Operators would like to be more involved in curating the experience for their customers, as they do with the dine in experience.

Operators' top concerns around delivery and aggregators

- Limited bottom line impact
- Lack of control over data
- No control over customer expirience
- Discounting and deals by aggregators

In 2019, what was the typical commission structure you had with delivery platforms?



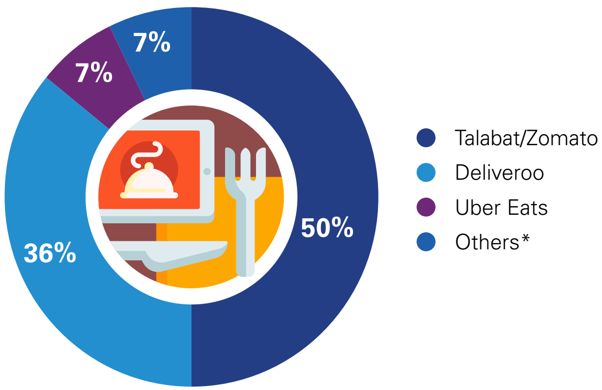
Hot wheels

So, if operators do not make money from delivery, are delivery platforms laughing all the way to the bank? Not really. The platforms have their own battles to fight around customer acquisition and stickiness. While the delivery segment should be profitable, the high, and ever-increasing, cost of acquiring customers results in significant cash burn for the aggregators. There is a clear difference between operators' strategy, which focuses on profitability, versus aggregators, who focus on customer acquisition.

In 2019, the segment also witnessed increased competition between well-funded platforms. As aggregators work to lure customers away from each other using deals, customers grow increasingly fickle, and acquisition costs for platforms continue to increase. It is therefore not surprising that some aggregators have yet to turn a profit.

So, if both operators and aggregator platforms stand to lose, who is winning? Clearly, the consumers are having the last laugh here. But the question remains as to how long this trend will continue. With market dynamics including increasingly wary customers and operators who are receiving very little support from aggregators during the crisis, the strains on the current delivery model have only grown in the Covid-19 era.

Which delivery platform does the majority of your delivery business come from?



A light in the darkness

Up until 2020, dark kitchens and cloud kitchens were riding a wave of growth in food delivery, contributing to a compelling story. While over 70% of operators surveyed in 2019 saw growing potential for delivery kitchens, over 50% of those were either already present or looking to establish a presence through this model.

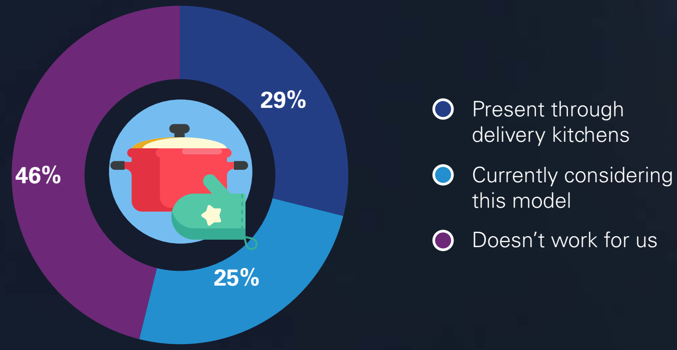
Some operators latched on to the opportunity and began using a combination of cloud kitchens and aggregator platforms to launch virtual brands. In certain cases, they leveraged existing kitchens within brick and mortar restaurants. As the pandemic keeps people at home, more and more operators are testing combinations of these solutions and the segment remains a hot focus for the sector.

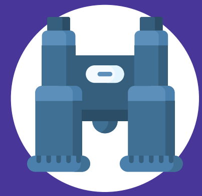
On the other hand, there are still operators who feel that delivery kitchens are taking the F&B sector another step away from the conventional dining out experience and perhaps, away from the consumer.

Evolving delivery kitchen models

Prevalent models	Description
Dark kitchen	Secondary kitchen location for a consumer-facing restaurant
Cloud kitchen	Kitchen for a business that is exclusively online without customer-facing stores
Multi-brand cloud kitchen	Aggregator-owned rental kitchens with multi-brand offering
Managed kitchen	Kitchen-based offering, where cooking to delivery is fully outsourced

Have you considered the delivery kitchen model?





KPMG view

While food delivery continues to grow in the region, the challenges are increasingly visible. Operators, while positive about the delivery-led growth story, have started to question the current business model, and aggregator platforms appear not to be better off either.

The inherent issue lies in the difference between aggregators' and operators' strategic objectives. While it is unlikely that this situation will be resolved in the short term, some level of alignment is required in order to create a more sustainable ecosystem. It is important for aggregators to realize they have a stake in operators' success.

The problem has been accelerated by waning demand due to Covid-19, though the segment is expected to recover marginally quicker given the limitations on dining out and consumers' concern keeping them at home. This has led to an increasing number of operators listing with platforms.

As operators continue to experiment, we expect delivery kitchens and virtual brands will become an increasingly prominent part of the sector and a potential driver for profitability across the region.

Fusion

We look at key influences shaping the market in 2019

Sealing the deal

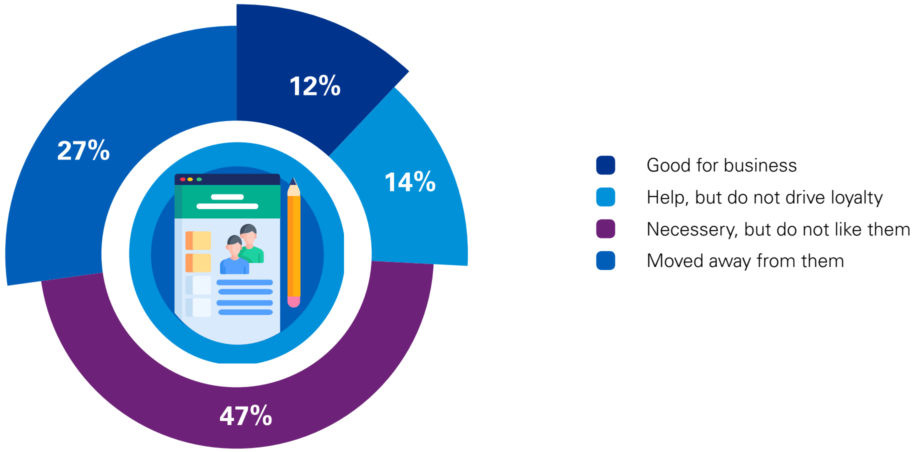
Deals and promotions remained a key part of the F&B offering in 2019. While in some instances they prompted a first trial for a restaurant, in others, operators used them to attract past customers back to their stores. Over the years, as consumers have become more value-seeking and competition has intensified, deals have become integral to operators' strategies.

According to our survey, three out of ten consumers in the GCC could be swayed to try a new concept based on promotions. On average, 25% also look for deals associated with their preferred cuisine or restaurant.

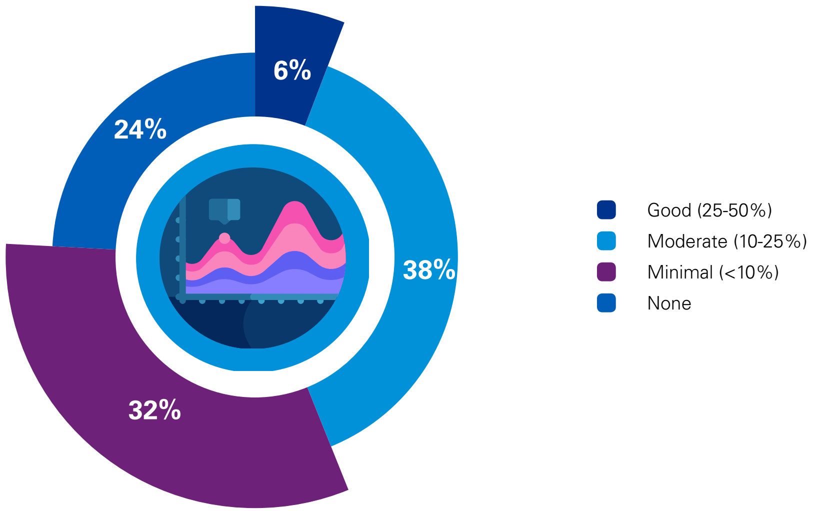
Operators echoed this consumer sentiment – nearly half mentioned that deals were a necessity in the market, even though they do not "like" deals. Since deals do not drive customer loyalty, over a quarter of operators surveyed have made a bold decision to move away from such offers.

The shift away from deals is also evident from their contribution to the sales for operators – only 44% of the operators we spoke to saw more than 10% of their business come from deals.

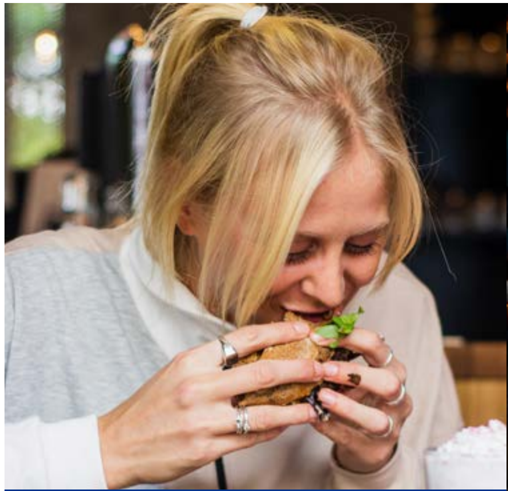
What do operators think about deals and promotions?



What share of business comes through deals and promotions?



How do deals and promotions influence your eating out habits?



27%

of consumers across the region say deals encourage them to try new cuisines

26%

look for deals in their preferred cuisines

25%

look for deals in restaurants of their choice

The word’s out

When it came to the factors influencing consumers’ willingness to try a new restaurant in 2019, word of mouth continued to be the most powerful. Deals and promotions were the second most influential factor, climbing up the ranks over the years. Online ratings and familiarity with a known brand from other countries were the remaining major influencers.

While recent developments in technology, such as the use of social media platforms for campaigning have greatly improved operators’ ability to capitalize on word of mouth, strategies focusing on customer outreach and increasing benefits for first-time visitors have also become a key area of focus for operators.

Prior to the outbreak of Covid-19, consumers were also willing to travel for the right concept or restaurant of their choice, with two out of three consumers across the region willing to travel more than 20 minutes to dine out.

Quality is king

In order to improve customer retention, many operators focused on customer experience in 2019.

Quality – both in terms of food taste and service – remained a dominant factor, as noted by consumers across all four markets. While 21-23% rated food quality as the top factor they look for in a restaurant, 14-15% mentioned the quality of service as important to them.

Not surprisingly, value for money also rated highly. As consumers have become more price sensitive, this factor grew in importance and was nearly as important as food quality.

What makes you try a new restaurant? (top 4 influences)

	UAE	Saudi Arabia	Kuwait	Oman
Word of mouth →	30%	28%	31%	31%
Deals and promotions →	25%	18%	22%	15%
Online ratings →	18%	17%	15%	12%
Known brands →	12%	14%	12%	17%

MCQ

What is most important to you as a consumer? (top 4 consumer choices)

	UAE	Saudi Arabia	Kuwait	Oman
Food taste and qulaity →	21%	21%	23%	23%
Value for money →	18%	18%	19%	15%
Service quality →	15%	14%	15%	15%
Ambience →	10%	13%	10%	10%

MCQ

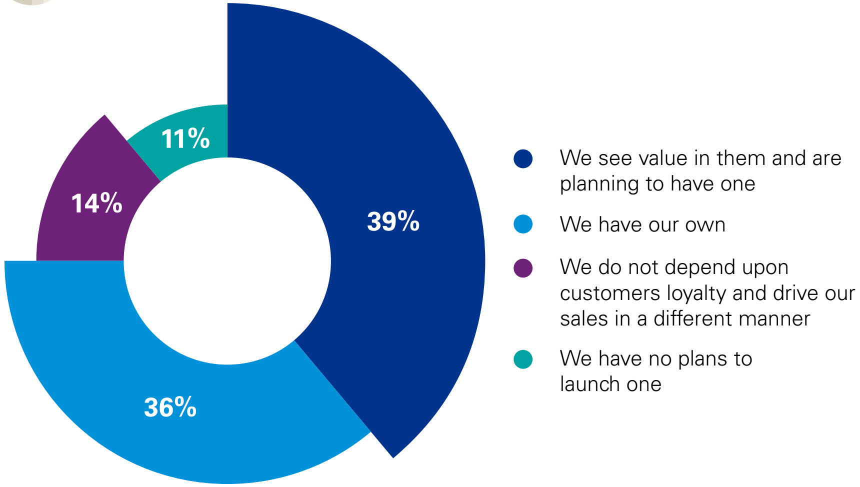
Time to be loyal?

Based on conversations with operators across the GCC, three out of four had a loyalty program in place by the end of 2019 or intended to launch one. Consumer feedback, however, paints a different picture. Across the region, most consumers did not subscribe to an F&B loyalty program, while even those who did may not have necessarily used them.

There is a significant gap in how loyalty programs are currently leveraged. According to KPMG's 2019 'The truth about consumer loyalty' report, 39% of consumers in the UAE used loyalty programs. However, only 17% of those surveyed for this F&B report used them for dining purposes. This presents a key opportunity for operators to better leverage their loyalty schemes and potentially shift consumers away from deals.

Loyalty can be a very powerful and effective tool - according to the same KPMG report, when a consumer is loyal to a brand, 86% will recommend the brand and 46% will remain loyal even after a bad experience and could be a potential strategy for recovery as the market normalizes.

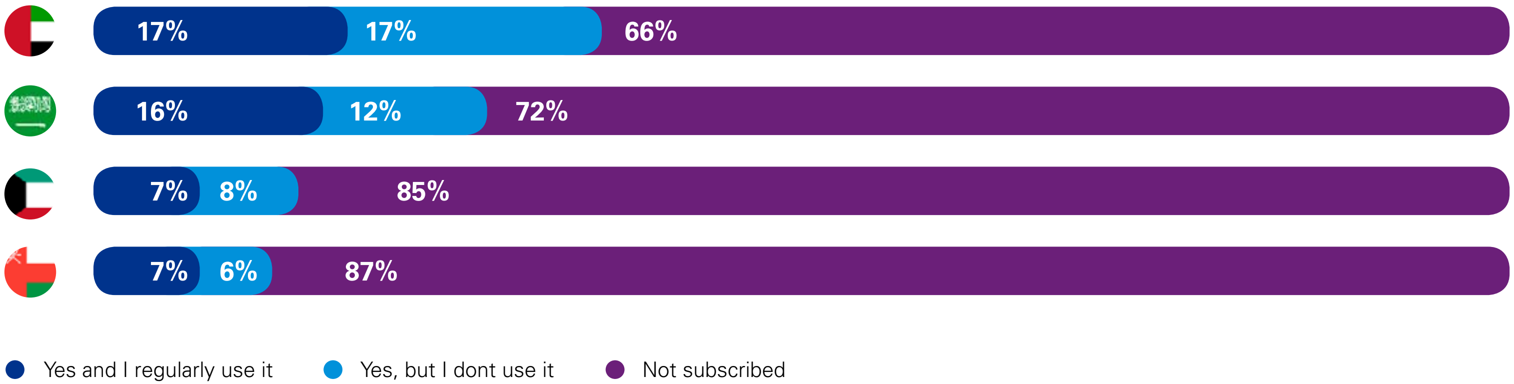
What do operators think about loyalty programs?



86% of consumers recommend brands[29]

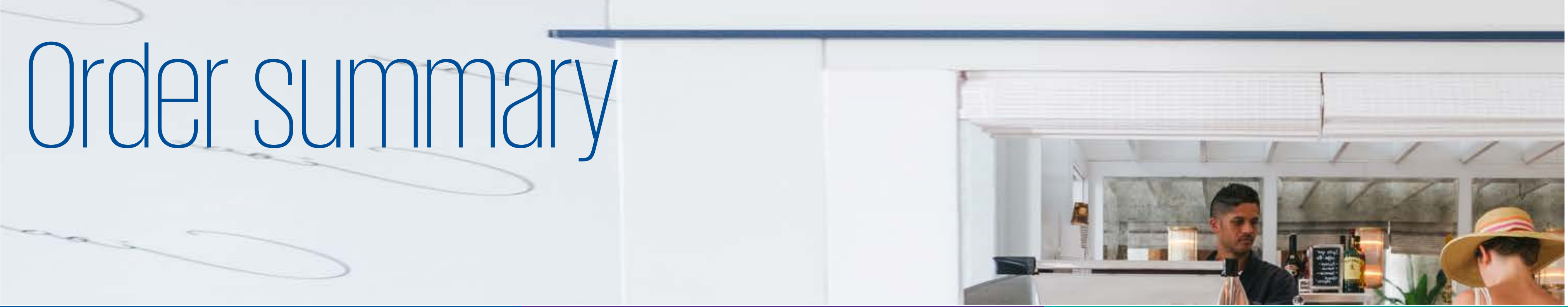
46% of consumers remain loyal even after a bad experience[29]

Do you subscribe to a loyalty programme and how often do you use it?



[29] KPMG's 2019 'The truth about consumer loyalty' report

Order summary



An assortment of flavors

- The F&B market in the GCC today represents a mix of opportunities and headwinds; while the UAE and Kuwait saw a somewhat challenging 2019, Saudi Arabia was emerging as the next frontier in the region.

Delivery grows though challenges show

- The delivery segment continues to grow, but there is a need to align objectives amongst stakeholders to create a more sustainable future.

Deals and promotions, a grudging necessity

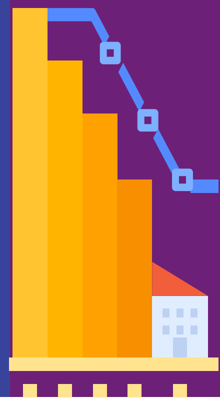
- Deals and promotions continue to influence consumers, even as some operators look to move away.
- Loyalty programs could be an alternative, although they remain arguably misunderstood and underutilized by operators.

QSR and fast casual continue to shine

- QSR and fast casual have benefited from the value-seeking behavior of consumers, while casual has been impacted.
- There is a shift from fine dining toward premium casual concepts.

The UAE and Kuwait, the big spenders

- Consumers in the UAE and Kuwait have the highest spend for dining out and ordering in, respectively.
- Cuisine preferences are driven by the demographic mix of the country, though Asian, Levantine/ Middle Eastern and Italian dominate in the region.



The pandemic hurt sales in 2020

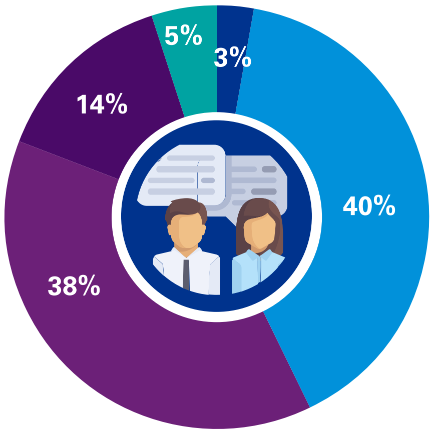
- Operators have been severely hit during the crisis, particularly the lockdown, resulting in likely the worst year for the sector in recent times
- Customers continue to be wary about dining out as well as ordering in due to hygiene concerns, and it will likely take considerable time for demand to return to pre-pandemic levels across the region

Our recipe

Methodology

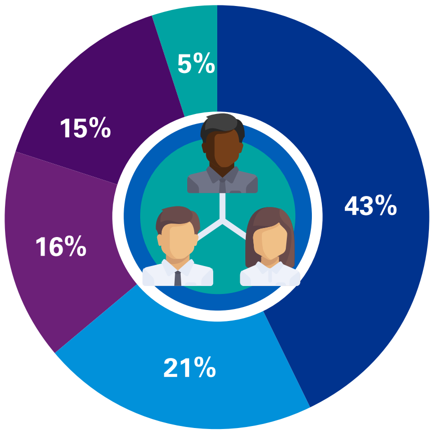
This report reflects the viewpoints of over 3,000 respondents in selected GCC countries (the UAE, Saudi Arabia, Kuwait, and Oman). The initial online survey was concluded by the fourth quarter of 2019 (2,400 respondents), and the subsequent survey was conducted in June 2020 during the pandemic (600 respondents).

How old are you?



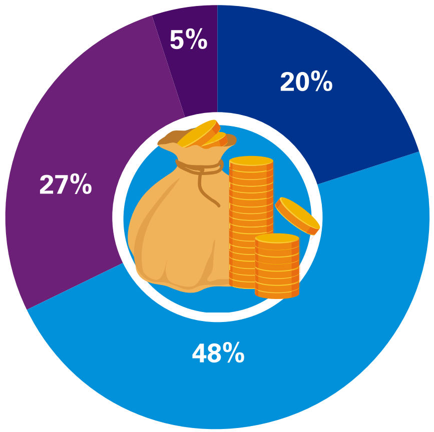
- Below 21
- 21 to 29
- 30 to 39
- 40 to 49
- 50 and above

Where are you from?



- Asian expats
- Arab expats
- Locals/nationals
- Other expats
- Western expats

How much do you earn?

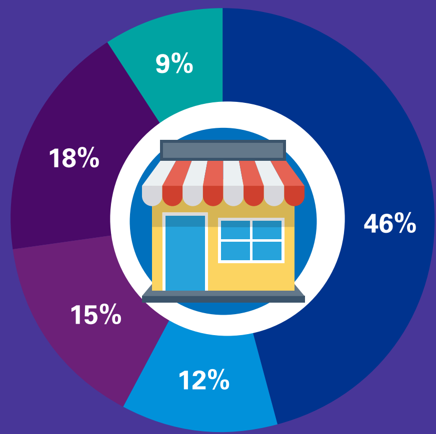


- Low income > USD 1,025
- Middle income USD 1,026 - USD 3,995
- Higher middle income USD 3,996 - USD 12,375
- High income > USD 12,367

We also interviewed 35 industry stakeholders operating across the GCC which represented more than 170 brands and over 3,300 outlets.

Conversations with F&B stakeholders explored current developments in the market and future perspectives. Interviews were conducted during the third and fourth quarters of 2019 and included both qualitative and quantitative data collection. After the onset of Covid-19, we re-surveyed a select set of operators to understand the impact of Covid-19 on performance and outlook. This included representation from all countries across all formats to ensure coverage.

Operators split by size of their presence in the GCC



- > 30 outlets
- 21 to 30 outlets
- 11 to 20 outlets
- 6 to 10 outlets
- < 5 outlets

About KPMG

For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman.

We work alongside our clients by building trust, mitigating risks and identifying business opportunities. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. Now entering its 150th year, the KPMG network includes approximately 219,000 professionals in over 147 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients. KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm is well established in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan and the Lebanon. Established in 1973, KPMG in the UAE and Oman employs 1,485 people across four offices, including about 100 partners and directors. Our latest initiative, KPMG IMPACT, aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality.

The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more resilient and socially conscious. For FY21, the firm has earmarked a global budget of USD 1.43 million for the initiative. As we continue to grow, we aim to evolve and progress ;striving for the highest levels of public trust in our work.

Our values are:

- **Integrity: We do what is right.**
- **Excellence: We never stop learning and improving.**
- **Courage: We think and act boldly.**
- **Together: We respect each other and draw strength from our differences.**
- **For Better: We do what matters.**

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

KPMG services for key aspects of your F&B business

Accounting and finance
- Audits and reviews of financial statements
- Agreed upon procedures
- Compilations of financial statements
- Outsourced payroll, bookkeeping and accounting services
- Attestation services

Strategy
- Business planning
- New market entry
- Strategic transformation
- Consumer insight
- Go-to-market planning

Deals
- Valuation services
- Financial due diligence
- Fund raising
- Financial restructuring
- Partner search
- Negotiations and closure
- Mergers and acquisitions
- Restructuring
- Capital markets
- Infrastructure and debt advisory

Operations
- Internal audit
- Operational reviews
- Compliance reviews
- Store audits
- Development of SOPs
- Enterprise risk management
- Forensics
- Accounting advisory
- Sustainability advisory
- People & Change

Tax
- VAT advisory services
- VAT compliance
- VAT impact assessments and preparation
- Tax compliance
- Tax structuring
- International tax
- M&A tax solutions
- Transfer pricing

Data & Analytics
- Process mining
- Data quality & data governance
- Predicting demand for services
- & choosing the right location
- Product ranging &
- replenishment forecasting
- Executive reporting

IT and cyber security
- CIO advisory
- Cyber security
- IT system reviews
- System selection and implementation
- Sourcing advisory

Digital
- Digital strategy
- Customer experience transformation

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