Delicacies

What works in terms of formats and how they fared

Re-formatted!

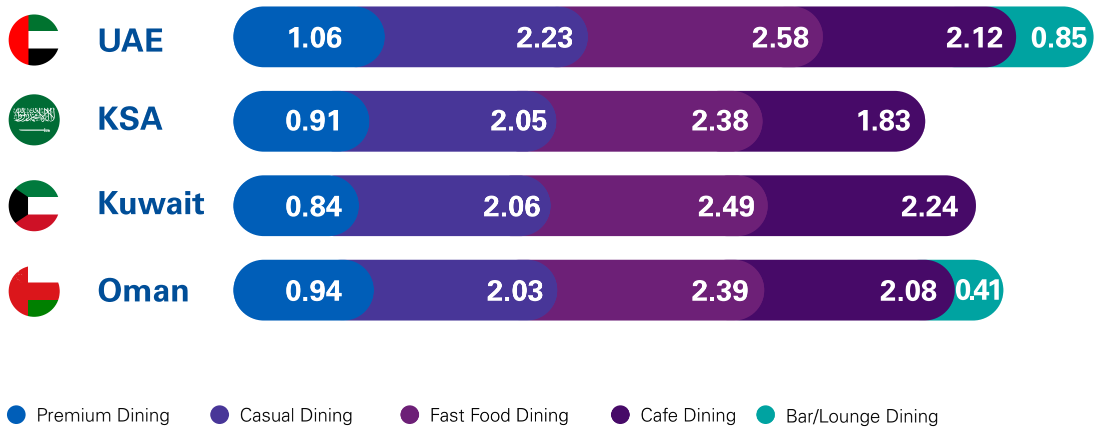
Trends across formats have largely remained consistent. According to operators, QSR and fast casual concepts remained popular in 2019, as consumers continued to be price-conscious and increasingly savvy when seeking F&B deals and bargains. Consumers support this point of view, citing fast food dining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

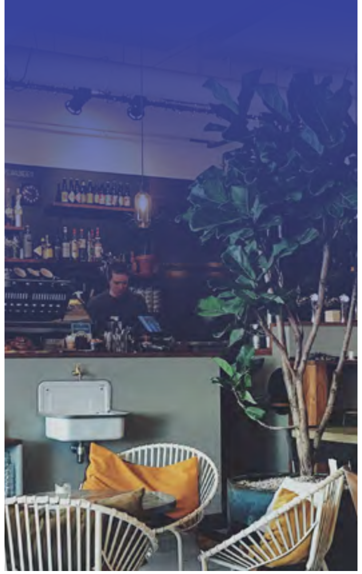
Fast food continued to perform well in 2019 due to increased price-consciousness and value-seeking consumer behavior.

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.

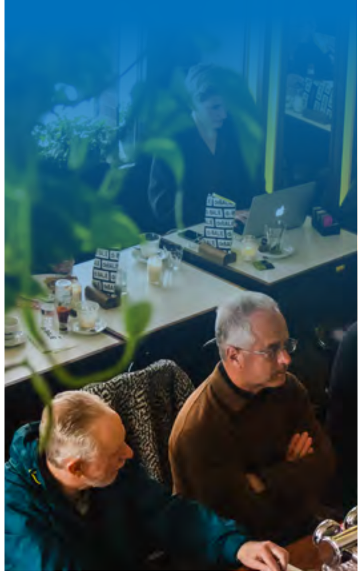
Some operators have noted overcrowding in the segment, despite growth.



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**

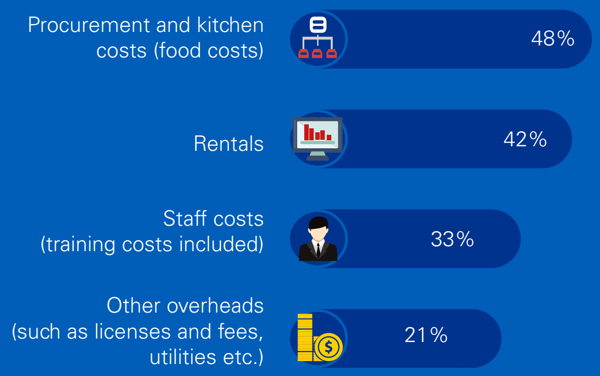
Chasing the bottom line

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.

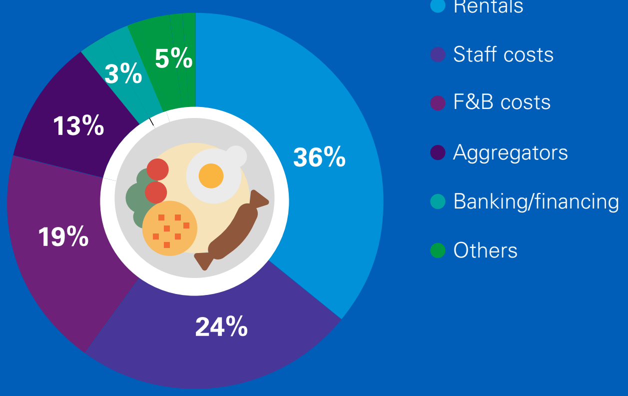
One of the major dilemmas faced by operators is around staff costs. Businesses have looked to retain staff to the extent feasible but have had to manage costs through unpaid leave, reduced salaries, split shifting, layoffs and other such measures during the lockdown period. Operators also looked to improve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