From the chef’s table
Foreword by Anurag Bajpai, Partner and Head of Retail, KPMG Lower Gulf

Starters
We examine the current state of the UAE F&B market and understand the interplay of demand and supply dynamics

Mains
Consumers are at the heart of the F&B industry. We explore their behavior, needs and expectations

Specials
We look at how various formats are faring in 2017 and examine how hotel-based outlets compare with those outside hotels

Hot bites
We look at how technology is a force of both disruption and opportunity for operators and how it will play in tandem with the human element of F&B

Order summary
Key findings and conclusions

Our recipe
We explain who we interviewed – both consumers and industry executives
In a market that is somewhat under-researched and at times misunderstood, KPMG has been leading the initiative to provide operators with market and consumer insights. Over the past three years, the interest and support our report has generated with the operators has been extremely encouraging.

Our 2017 report builds on the two previous reports in many ways. Similar to last year, the views of about 800 consumers across the UAE have helped us understand consumer behavior and preferences, which we have compared against insights from previous years, to identify evolving issues as well as, in certain cases, consistencies in choice. Further, for the first time, we surveyed close to 350 respondents across the Gulf Cooperation Council (GCC) region to compare and contrast their behavior and spending patterns with those of UAE consumers.

As with last year, we also interviewed a number of leading F&B operators who voluntarily provided information which has helped us understand the micro-economics and dynamics of the UAE F&B market from their perspective. As an important consequence, in this year’s report, we have analyzed key financial benchmarks across the different F&B formats, a comparison, which we believe, will be useful for the industry at large and will pave the path to greater transparency in the future. Last but not the least, we separately assessed the role of the hotel-based offerings in the wider F&B industry, obtaining views from both operators and consumers.

The central message of this year’s report is that F&B demand in the UAE continues to be robust, with consumers generally going out more and spending more, both compared with last year and compared with the rest of the Gulf. Business for the operators, however, has been challenging, with the majority struggling to achieve like-for-like growth in the face of ample supply and stiff competition. This situation is likely to continue for the next year or so but is likely to improve from 2019 and beyond, in the run-up to Expo 2020, and as the UAE further strengthens its position as a global tourist destination with newer attractions and offerings.

In this challenging context, we see operators striving to stay relevant by re-examining their business models, brand strategies and cost structures, while maintaining high standards of quality for the customer. At the same time, operators are seeking opportunities in the other GCC states, which can present untapped potential for established regional and international brands.

The other broad themes in this year’s report encompass consumers’ evolution in terms of eating-out and spending patterns; the implications for operators’ product and service offer, including strategy, marketing and engagement issues; and the growing adoption of technology and its disruption of the traditional F&B business model.

We are most grateful to the consumers who took part in the survey. A special word of thanks too to all the operators who agreed to meet us and discuss their views on the market – your feedback has been invaluable for this report.

I hope you find the report useful and would be delighted to hear your feedback.

Anurag Bajpai
Partner | Head of Retail
KPMG Lower Gulf
We examine the current state of the UAE F&B market and understand the interplay between demand and supply dynamics

Over the years, the UAE has established itself as a dominant Food & Beverage (F&B) destination in the Middle East. The emirates in general – and Dubai in particular – continue to attract international and home-grown F&B brands. The country is also recognized as the location of choice for international retailers as well as F&B operators looking to enter the Middle Eastern market.

The restaurant footprint of Dubai, in particular, measured as number of restaurants/F&B outlets per million population, compares well with some of the established global F&B markets such as Paris, London and New York. In fact, if overnight visitors are considered, Dubai has more outlets per million than New York. This underlines Dubai’s positioning as a global F&B destination.

Restaurants footprint – Dubai vs major global cities

<table>
<thead>
<tr>
<th>City</th>
<th>Number of restaurants per million of population</th>
<th>Number of restaurants per million of resident and overnight visitors population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubai</td>
<td>2,968</td>
<td>501</td>
</tr>
<tr>
<td>Paris</td>
<td>3,514</td>
<td>837</td>
</tr>
<tr>
<td>New York</td>
<td>3,115</td>
<td>404</td>
</tr>
<tr>
<td>London</td>
<td>3,005</td>
<td>623</td>
</tr>
</tbody>
</table>

Sources: Global Destination Cities Index, 2016, Mastercard; Dubai Retail Review, Core Savills, 2017; The World’s Cities in 2016, United Nations; City food authority websites
Things heating up…
Against this background, however, these are challenging times for the industry – more so today than in the past. Most operators have witnessed declining or flat same-store sales over the last year. The fact that this comes on the back of a similarly challenging year for sales in 2016 only makes for a tough environment where it is difficult to maintain the optimism witnessed in the past decade.

How has your F&B business performed over the last 12 months?

- **65%** Like-for-like sales decline
- **22%** Like-for-like sales growth
- **13%** No change

What is your growth outlook for the next 12 months?

- **44%** Expecting further decline
- **30%** Expect growth
- **26%** Status quo

Operators, by and large, are concerned that there are no immediate signs of revival and the outlook for 2018 continues to remain subdued; around 70% of the operators expect the market to remain flat or to decline over the next twelve months.
**Extra servings**

The current sentiment in the F&B industry does not seem to be on account of consumer demand, which continues to be robust. The majority of consumers are still eating out as much or more, and spending as much or more compared with last year. Over 40% claim to be spending more than last year on eating out or ordering in, although they are more conscious of their spend than they were in 2016.

So, if market demand is still as robust as it was in 2016, why are the operators facing challenges in growth? The answer perhaps lies in the supply-side dynamics.

According to estimates from JLL Research, retail supply in Dubai and Abu Dhabi is expected to increase from 6 million sqm in 2016 to 7.5 million sqm gross leasable area (GLA) by 2019 and will outpace the growth of the resident and tourist population in the UAE. This should be a cause for concern in a market such as the UAE, which already has high mall density. Further, in recent times, F&B has garnered around 25% of the retail space for new openings. This is expected to increase further with the upcoming developments.

A combination of these factors could cause a rapid increase in F&B supply with questions around demand stimulus, resulting in increased competition and less room for manoeuver for existing operators.

### Sources:

- Euromonitor, World Bank; JLL Research, Dubai and Abu Dhabi Real Estate Market Overview – Q2 2017
- The Successful Integration of Food & Beverage within Retail Real Estate?
Too hot to handle
With tough market conditions, a number of operators are working to address the immediate challenges as well as plan for longer-term opportunities. They recognize that they have limited control over the market forces at play but are gearing up to respond in the best manner possible.

Portfolios are under review to identify the winning brands as well as the struggling ones; future plans are anchored around those brands and create concepts that have the best chances of succeeding in the market. A similar scrutiny is being undertaken for the outlets, albeit at more frequent intervals than in the past.

Rising costs are another concern for operators. While keeping a close eye on the topline, they are increasingly seeking ways to operate leaner but more efficient businesses and every opportunity to optimize operations and reduce costs is being explored.

Conscious that they need to achieve growth, operators are looking at expansion, but more cautiously than in the past. They are also selectively placing bets on new brands but only after rigorous market tests and meticulous planning have been conducted.

The impending VAT implementation from 1 January, 2018 will impact all consumer-driven businesses, including F&B. While the effect is expected in numerous ways, the single most important impact will be on the menu prices. Operators today are faced with the dilemma of whether or not to pass on the tax to the consumers and if so, to what extent.

Given the current state of the market and the price-sensitive nature of consumers, operators are wary of increasing menu prices as it is likely to hurt sales. At the same time, they are reluctant to absorb VAT as it would further reduce already suppressed margins.

Some operators are looking to move early and use a combination of menu refreshes, price increases on selective items and combo offers to prepare themselves while maintaining the consumer’s perception of value. Others prefer to wait and watch before deciding on their course of action.

But, by and large, operators agree that this will have a one time impact on their business in 2018. Over time, one expects the consumers to adjust to the new reality and any cutback on consumption is likely to return to normal levels. In the meanwhile, operators will likely need to work even harder to manage their performance.
Whetting the appetite

In spite of the challenging market conditions, there is a shared sense of optimism amongst operators when it comes to the medium-term outlook. Expo 2020 as well as other global events in the region are likely to provide reasons for cheer as the emirates continue to evolve as a tourist destination. By putting their house in order today, operators are preparing themselves to benefit from improved market conditions.

Most operators are also looking to make the required investments to achieve growth – in part, to improve their operations, but also to cautiously increase their brand and outlet footprints in the UAE. More significantly, operators are looking to expand into other international markets, particularly in the rest of the GCC. It seems most of the other GCC markets have room for more international brands, and untapped opportunity present a compelling case for investment by UAE operators.

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<table>
<thead>
<tr>
<th>What is your medium-term outlook for the F&amp;B sector?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
</tr>
<tr>
<td>82%</td>
</tr>
</tbody>
</table>

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Where are you looking to invest in the medium term?

- **New markets/geographies**: 57%
- **Network expansion for existing brands**: 52%
- **New brands and franchises**: 43%
- **Operational improvement**: 30%

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Where are you looking to invest in the medium term?
The UAE F&B market has proven to be one with enduring appeal, which can compare its size of offer, variety and standards favorably with some of the more established F&B destinations of the world.

Although the demand outlook is robust, there is ample supply and competition is stiff. Individual operators are currently being challenged to grow like-for-like revenues.

In the near-term, operators will need to proceed cautiously while striving for greater efficiencies, to be selective and meticulous in pricing and promotional offers, location selection and new brand launches.

The introduction of VAT may have a marginal impact on the F&B businesses in the short term as consumers adjust to this new reality. However, it is unlikely to have a sustained effect on consumer spend and frequency of eating out.

We consider the medium-term as positive, with the number of tourists increasing year on year, boosted by Expo 2020 and new tourist attractions. We also see expansion opportunities across the GCC region.

Outside the UAE, Riyadh is the top choice of new markets for most operators, with over 50% being either already established in this market or drawing up plans to do so.

Jeddah is also of keen interest to them. Khobar, Manama City and Kuwait City are the other GCC cities that are attracting attention.

Operators will do well to make sure that brands are ready for such expansion opportunities, and that their potential in these newer markets has been adequately tested.

KPMG view

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Consumers are at the heart of the F&B industry. We explore their behavior, needs and expectations.

**Viva Italia!**
In a place as multicultural as the UAE, operators are constantly trying to find cuisine offers to please the palates of the different population segments. Although there have been a number of new offerings in recent times, the top choices of cuisine in the UAE have largely remained consistent.

While the leading cuisines are similar to 2016, Italian and Lebanese cuisines have edged Indian food in terms of wider popularity. That said, Indian and Lebanese are still the most popular, first-choice cuisines.

Similar views on the cuisines were echoed by a number of operators, who indicated that Italian and Lebanese have a stronger than ever appeal with UAE consumers. Other cuisines that are gaining popularity include Peruvian, Greek and Asian fusion.

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**Which are your preferred cuisines?**

<table>
<thead>
<tr>
<th>Cuisine</th>
<th>1st choice</th>
<th>2nd choice</th>
<th>3rd choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>17%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Lebanese &amp; Levantine</td>
<td>17%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Italian (includes pizza)</td>
<td>13%</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>Emirati</td>
<td>12%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Other Middle Eastern or North African</td>
<td>11%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>American (includes burgers)</td>
<td>4%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Chinese</td>
<td>3%</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>
**How often, how much?**
The trends in frequency of eating out and average spend have broadly remained consistent over the past years. Lunch and dinner are the most frequently eaten-out meals, albeit for differing reasons. While convenience drives eating out for lunch, dinners are more about experience and socializing. Similarly, consumers tend to spend more on dinners and brunches when compared with other meals; breakfasts are usually light on the consumer’s wallet.

**How frequently do you eat out?**

<table>
<thead>
<tr>
<th></th>
<th>Breakfast</th>
<th>Brunch</th>
<th>Lunch</th>
<th>Key</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>18%</td>
<td>8%</td>
<td>4%</td>
<td>More than 8 times a month</td>
</tr>
<tr>
<td>Less than 5 times a month</td>
<td>42%</td>
<td>49%</td>
<td>38%</td>
<td>5-8 times a month</td>
</tr>
<tr>
<td>5-8 times a month</td>
<td>23%</td>
<td>32%</td>
<td>37%</td>
<td>Less than 5 times a month</td>
</tr>
<tr>
<td>More than 8 times a month</td>
<td>17%</td>
<td>7%</td>
<td>24%</td>
<td>Never</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Breakfast</th>
<th>Brunch</th>
<th>Lunch</th>
<th>Key</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than AED50</td>
<td>4%</td>
<td>7%</td>
<td>8%</td>
<td>More than AED150</td>
</tr>
<tr>
<td>AED51 - AED150</td>
<td>27%</td>
<td>25%</td>
<td>39%</td>
<td>AED51 - AED150</td>
</tr>
<tr>
<td>More than AED150</td>
<td>69%</td>
<td>36%</td>
<td>33%</td>
<td>Less than AED50</td>
</tr>
</tbody>
</table>

Though not the same, takeaway and delivery are similar choices; both are witnessing a rise as an increasing number of consumers prefer the convenience of ordering in and enjoying greater choice. We will look more closely at this trend in the Hot bites section.
The typical F&B consumer in the UAE...

- Has developed a taste for eating out: 81%
  - Eat out just as much, if not more, than last year
- Is a deal seeker: 81%
  - Are influenced by deals when choosing a restaurant
- Is becoming more of a foodie: 45%
  - Have visited a food truck or food festival in the last 6 months
- Seeks healthier options: 45%
  - Felt there are not enough healthy options offered
- Demands quality: 60%
  - Are most attentive to food quality and taste, as well as service when choosing a restaurant
Our survey highlighted some striking themes about the average consumer. While some of these are similar to previous years’ trends, there are a few shifts in behavior and preferences: today’s consumer is evolving with experience, is spoilt for choice and is more discerning than ever.

- **Is technologically savvy**: 60% use a food app on their smartphone/tablet.
- **Is adventurous**: 94% like to try new restaurants and/or new cuisines.
- **Wants to be heard**: 60% provide feedback when they are really happy or disappointed with their experience.
- **Is willing to go the extra mile**: 63% do not mind travelling more than 20 mins to eat out.
Price on the rise
Operators, for their part, have tried to maintain prices, to the extent that it does not hurt their business and have selectively increased prices through a mix of menu refreshes and price increases on specific items.

Despite such conscious efforts, these changes have not gone unnoticed: consumers believed they were currently spending much more when they eat out compared with last year. An overwhelming 78% of the consumers felt that it has become more expensive to eat out over the last 12 months.

As a consequence, they are attempting to modify some of their eating-out habits. They are more aware of what they order or opt for more affordable options. Some consumers have also cut down on their frequency of eating out.

What's the big deal?
Another impact of the perceived increase in the cost of eating out is the rise in deal-seeking behavior amongst consumers. Over 80% of respondents told us that availability of deals influences their choice of restaurant in some way or other. This is a marked increase from last year when only 66% of the consumers said that deals had some influence on their choices.

While the availability of offers and discounts may tempt some to try new cuisines and restaurants, others would only seek available deals for their favorite cuisines or their choice of restaurant.

Though operators acknowledge that deals are enhancing their volumes they are keen to move away from deals as they do not create customer loyalty. Moving away from deals, however, could be tricky as has been experienced by some operators: part of their business comes and goes with the deals.

How do price increases impact your eating out?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am more conscious of what I order</td>
<td>27%</td>
</tr>
<tr>
<td>I try to eat out less frequently</td>
<td>25%</td>
</tr>
<tr>
<td>I look for lower priced restaurants</td>
<td>23%</td>
</tr>
<tr>
<td>I look for coupons, deals and promotions</td>
<td>14%</td>
</tr>
<tr>
<td>Price increases don’t affect my habits</td>
<td>11%</td>
</tr>
</tbody>
</table>

What is the influence of deals and promotions on your eating out?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deals encourage me to try new cuisines, restaurants and venues</td>
<td>36%</td>
</tr>
<tr>
<td>I only look for deals for cuisines I like</td>
<td>24%</td>
</tr>
<tr>
<td>I only look for deals from restaurants I know</td>
<td>21%</td>
</tr>
<tr>
<td>I only look for deals on special occasions</td>
<td>7%</td>
</tr>
<tr>
<td>I never use deals</td>
<td>12%</td>
</tr>
</tbody>
</table>
Putting in a good word
With a multitude of venues and offerings at their disposal, choosing which restaurant to visit is beginning to get overwhelming for UAE consumers. This explains why 61% seek reviews – informal recommendations or written opinions – before making a decision.

The views of family and friends have the highest influence on consumers’ decisions to visit a particular restaurant. Increasingly, online reviews, via social media platforms as well as through search and discovery apps, play an important role in the choice of restaurant.

Considering consumers’ views on deals and promotions, it is not surprising that the influence of deals on choice of restaurant has witnessed an increase, ranking above brand familiarity compared with last year.

What makes you try a new restaurant?

- **32%** Word of mouth
- **22%** Online ratings
- **16%** Deal seeking initiatives
- **13%** Known brands from home and abroad
- **10%** Advertisements
- **7%** Formal food reviews

The influence of deals on choice of restaurant has increased compared with last year.
For this year’s report, we also surveyed consumers across the GCC region to develop an understanding of their eating-out habits and spending trends.

Here, we compare the UAE with the other GCC markets to provide a view on the wider GCC opportunity for operators.

How to interpret the data?
The performance of GCC countries is expressed as a percentage of the UAE. For example, for every $100 spent per head in the UAE, the dollar amount spent by consumers in each of the other GCC countries is given. Similarly, the number of times consumers in these countries eat out or take away is expressed as a percentage of every 100 eating-out occasions in the UAE.
Frequency and spend in the other GCC countries are generally lower than in the UAE, with Bahrain and Qatar coming closest to the UAE. (Only Kuwaiti consumers spend more on takeaways than UAE ones)

The spend on takeaways is similar across the region

Similar to the UAE, consumers in the other GCC markets are also eating out as much or more compared with last year. However, a greater share of consumers in Saudi Arabia and Oman have considered cutting down on their spend per meal

The modification of consumer behavior is driven by various reasons: from an alteration in family circumstances to disposable income changes, to increased health consciousness

It is encouraging to see continued buoyancy in demand, with consumers eating out and spending more than last year. The UAE also compares favorably with the rest of the GCC region, both in terms of frequency of eating out and average spend. However, with the F&B consumer becoming more discerning, somewhat adventurous and certainly more deal-seeking, operators will need to work harder to stand out in an increasingly crowded market, and to attract and retain customers.

There is also remarkable consistency in consumer feedback and how they relate to the operators. Consumers are consistentlyForeground.

**Key themes**

**What does it mean for operators?**

**Cuisine paradox**
- Consumers are consistent in their choice of cuisines. They like trying new flavors and concepts
- But this does not necessarily move them away from their preferred cuisine, which tends to be their home-culture cuisine. Cuisines that do well tend to reflect consumer demographics

**Deals and promotions**
- Consumers are increasingly seeking better value, and are becoming more cost-conscious
- Operators are keen to move away from deals but not at the expense of losing business
- Hence, they will continue to play a role in attracting footfall, even though operators can be selective in how and what constitutes their particular deal

**Customer engagement**
- Traditional marketing techniques may no longer be sufficient to create marketing buzz
- Social media now plays a major role, especially in customer engagement
- Word-of-mouth and online reviews have the biggest influence on consumers’ choice of restaurant

**Healthy eating**
- Healthy eating is a small but growing segment: an increasing number of consumers prefer more healthy food and have raised concerns around lack of healthy options
- Operators are conscious of this need and are actively considering concepts
- But, there is a need for a greater shift in consumer preference for operators to create sustainable and profitable businesses around healthy food

**Conquering the GCC**
- GCC expansion is at the top of the agenda for many operators
- The average spend and frequency of GCC consumer are generally lower than that of the UAE consumer. This should not dampen operators’ spirits as markets such as Saudi Arabia are significantly larger than the UAE
- Operators should understand each market is different and their strategy and planning needs to be nuanced appropriately. The concepts for expansion need to be selective, and they need to set financial milestones to ensure such plans deliver

**KPMG view**

It is encouraging to see continued buoyancy in demand, with consumers eating out and spending more than last year. The UAE also compares favorably with the rest of the GCC region, both in terms of frequency of eating out and average spend. However, with the F&B consumer becoming more discerning, somewhat adventurous and certainly more deal-seeking, operators will need to work harder to stand out in an increasingly crowded market, and to attract and retain customers.
We look at how various formats are faring in 2017 and how hotel-based outlets compare with those outside hotels

Re-formatted!

Consumers demonstrate consistency in the format choices compared with last year: quick-service restaurants (QSRs) and cafés continue to be the most frequented, and casual dining formats are also quite popular.

QSR and casual dining formats have been popular in the UAE in recent years, but the macro-economic environment has accentuated the shift in preference towards them. While consumers are looking to eat out and spend money, they are demanding more value for money than ever. Cafés, which are part of the cultural grain of the UAE, have not performed consistently; some operators feel that the proliferation of café concepts has necessitated the need for greater differentiation. Fine dining formats, especially the well-established names in the market, continue to benefit from their patronage amongst the more upwardly mobile; for others, it is one for special occasions.

Customers are demanding more value for money than ever

### Formats

<table>
<thead>
<tr>
<th>Formats</th>
<th>Views based on operator discussions</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSR/ fast casual</td>
<td>Doing well, though consumers are demanding more value for money and better experience at sensible prices</td>
</tr>
<tr>
<td>Casual dining</td>
<td>Continues to be popular. Wide range of cuisines means strong competition, but well-executed concepts do really well</td>
</tr>
<tr>
<td>Fine dining</td>
<td>Some strong performers. While some concepts have struggled to sustain initial success, by and large fine dining benefits from steady patronage</td>
</tr>
<tr>
<td>Cafés</td>
<td>Increasing number of new openings and sales are being cannibalized. Need for greater differentiation</td>
</tr>
<tr>
<td>Bars &amp; lounges</td>
<td>Shift from high-end experience to trendy concepts. Deals and promotions can be crowd-pullers</td>
</tr>
</tbody>
</table>

How often do you eat out at these?

- **Fine dining**:
  - More than three times a month: 13%
  - 1-3 times a month: 22%
  - Only on a special occasion: 52%
  - Never: 13%

- **Casual dining**: 23%
  - More than three times a month: 23%
  - 1-3 times a month: 50%
  - Only on a special occasion: 22%
  - Never: 5%

- **Quick service/ fast food**: 39%
  - More than three times a month: 39%
  - 1-3 times a month: 36%
  - Only on a special occasion: 16%
  - Never: 9%

- **Café**: 35%
  - More than three times a month: 35%
  - 1-3 times a month: 36%
  - Only on a special occasion: 19%
  - Never: 10%
**What’s your location?**
Given the high mall density in the UAE, it is no surprise that restaurants and food courts within these complexes are the most preferred location for eating out. Nearly 3 out of 4 consumers said they eat out at establishments within malls at least once a month.

For nearly half of our respondents, hotel-based restaurants, which are perceived to be high-end dining experiences, are for special occasions. But they do have a stable patronage, perhaps linked to the fine-dining concepts, as one out of six consumers visit hotels for eating out at least once a week.

**Where are you most likely to eat?**

<table>
<thead>
<tr>
<th>Location</th>
<th>More than three times a month</th>
<th>1-3 times a month</th>
<th>Only on a special occasion</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within malls</td>
<td>4%</td>
<td>18%</td>
<td>52%</td>
<td>16%</td>
</tr>
<tr>
<td>Food courts</td>
<td>9%</td>
<td>41%</td>
<td>34%</td>
<td>22%</td>
</tr>
<tr>
<td>Free-standing</td>
<td>10%</td>
<td>22%</td>
<td>29%</td>
<td>27%</td>
</tr>
<tr>
<td>Hotel-based</td>
<td>9%</td>
<td>47%</td>
<td>27%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Up for a drink?**
An increasing number of consumers, 37%, visit bars at least once a month.

**Shine on Michelin star**
Close to 2 out of 5 respondents who eat at fine-dining restaurants are influenced by the presence of a celebrity or Michelin-starred chef.

**Tipping point**
The culture of tipping service staff seems to be picking up in the UAE as over 30% said they leave behind more than 10% of their check.
Ready to check in?
Hotels have always been one of the top choices for restaurant location – especially for concepts that do well with alcoholic beverages. They usually offer a premium experience with a varied mix of cuisines. As a result, some of the most successful F&B concepts in the UAE are located within hotels, and continue to do well in the current market.

Compared with mall-based or free-standing restaurants, hotel-based F&B seems to be less frequently visited by consumers. Less than half of respondents visit a hotel-based restaurant every month. However, they are valued for their reputation, which may be linked to that of the property itself. In addition, the thematic experience and tactical offers also help in attracting consumers to these venues.

The growing popularity of brunches are also somewhat related to hotels and their F&B offering. Not surprisingly, like everything else in F&B, consumers associate great brunch experience with the quality and spread of food as well as service. Availability of alcohol is not as big a crowd puller as one would have expected, neither for brunches nor for other meals at hotels.

What makes you choose a hotel-based restaurant?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Most important reason</th>
<th>Second most important reason</th>
<th>Third most important reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>45%</td>
<td>24%</td>
<td>22%</td>
</tr>
<tr>
<td>Specific offers or themes</td>
<td>26%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Tactical discounts</td>
<td>22%</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Loyalty programs</td>
<td>22%</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>Availability of alcohol</td>
<td>8%</td>
<td>6%</td>
<td>9%</td>
</tr>
</tbody>
</table>

What makes for a great brunch experience?

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of food</td>
<td>27%</td>
</tr>
<tr>
<td>Variety of food</td>
<td>25%</td>
</tr>
<tr>
<td>Great service</td>
<td>21%</td>
</tr>
<tr>
<td>Ambience</td>
<td>14%</td>
</tr>
<tr>
<td>Opportunity to socialize</td>
<td>10%</td>
</tr>
<tr>
<td>Availability of alcohol</td>
<td>3%</td>
</tr>
</tbody>
</table>
In or out – are they the same?
While the F&B offer within hotels is well-established, comparisons are often drawn between them and free-standing businesses. Operators view the hotel-based F&B differently – a vast majority of them view hotel-based F&B as part of the larger F&B industry but not necessarily as direct competition. By and large, F&B operators view the dynamics of hotel-based F&B as different from that of restaurants outside it and hence it is difficult to draw parallels.

A few operators, however, see things differently. According to them any business that is looking to win a share of eating out, either by residents or tourists, represents competition. Hotels have an edge over free-standing F&B operators when it comes to tourist wallet share, and they have the ability to bundle F&B offerings. However, with tourists looking for more variety and value, F&B operators do try to attract tourists, at least for lunch and dinner.

There is also a emerging view in the market that F&B business within the hotels should be left to the specialists and hotels would do well to focus on their core offering of the hotel rooms. This argument finds some support in the market today as some of the hotel properties have struggled to manage the performance of their F&B operations. There is also an increasing trend of hotel operators seeking to bring in F&B specialists to manage this part of their operations or to lease out space to known or interesting new concepts managed by F&B operators.

Operators’ views on hotel-based F&B brands/concepts

- **48%** Consider them part of the industry, albeit with different dynamics
- **30%** Consider them direct competitors
- **26%** Do not view them as competition
- **4%** Benefit from their presence
This year, we looked at the numbers behind the F&B business: what drives profitability and how that differs across formats, from QSRs to fine dining.

At one end, QSRs are volume-driven businesses with relatively low ticket-size, limited maneuverability around costs (except rentals) and modest margins. Fine dining is at the other extreme, which is characterized by a limited number of transactions or table turns but high-value checks and comparatively high margins. A number of fine-dining concepts are licensed, which further adds to their revenue and profit.

Margins across F&B formats vary significantly due to several factors. While costs such as staff salaries, incentives and rentals are primarily fixed, the fluctuations in revenue, driven by volumes as well as average value, results in a wide variance in cost structures and hence, the margin outcome. Further, direct food costs tend to vary based on the format and cuisine being offered. Rentals are another major cost and margin determinant, and tend to vary widely depending on location and concept.

Note: The above analysis is based on information gathered from various operators and fine-tuned for outliers. The ranges above denote the low and high values for various metrics gathered through discussions with select operators.
The financial viability of F&B businesses is driven by various factors. For QSR, the focus is on driving volumes and footfall, and managing procurement and kitchen efficiency to maintain margins. Casual and premium-casual dining formats need to ensure the appropriate size of outlets and staff-per-outlet ratio according to their brand and price positioning.

For fine dining, the key to lucrative financial outcome is around driving the spends of their patrons, while offering them a high-quality, consistent experience to generate repeat business. This requires investment in staff training: encouraging passion and knowledge for the food being served to their guests.

KPMG view
Consumers have been fairly consistent in their choice of F&B formats as compared to last year: quick service, cafes and casual dining remain as popular as ever. We believe there could still be some opportunity for operators to increase sales and profit, despite the challenging market conditions, provided they are able to fine-tune their offer to evolving consumer preferences. It will be important for operators to continue to balance these dynamics while maintaining a keen eye on the financial outcomes. From the review of the financial benchmarks, food costs and rentals are key elements impacting the profitability of the business; operators will need to find ways to further optimize these costs and in as many ways as they can. The path ahead is not easy; but those who tread cautiously but smartly will develop a sustainable and successful business for the future.

Premium casual

<table>
<thead>
<tr>
<th>This is your e-receipt</th>
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<tbody>
<tr>
<td><strong>Sale transaction</strong></td>
</tr>
<tr>
<td><strong># of transactions</strong></td>
</tr>
<tr>
<td><strong>Average ticket size</strong> (AED)</td>
</tr>
<tr>
<td><strong>Food cost (of revenue)</strong></td>
</tr>
<tr>
<td><strong>Staff cost (of revenue)</strong></td>
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<tr>
<td><strong>Rentals (of revenue)</strong></td>
</tr>
<tr>
<td><strong>Marketing cost (of revenue)</strong></td>
</tr>
<tr>
<td><strong>Margins (of revenue)</strong></td>
</tr>
<tr>
<td><strong>Revenue/staff (AED)</strong></td>
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Fine dining

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<td><strong>Margins (of revenue)</strong></td>
</tr>
<tr>
<td><strong>Revenue/staff (AED)</strong></td>
</tr>
</tbody>
</table>

(1) Including beverages
Hot bites

We look at how technology is a force of disruption and opportunity for operators and how it will play in tandem with the human element of F&B

Tapping the opportunity
Technology is re-defining the F&B industry like never before. Consumers today are more tech-savvy than ever; they seem to value access to information and convenience over experience. Food and delivery apps are based on this premise and have therefore benefited from this increased adoption of technology. Six out of 10 consumers today already use these apps, with close to a third using them to order food.

As more customers choose to order in instead of eating out, restaurants are gradually opening up to this new opportunity created by the proliferation of technology. There are a growing number of operators who appreciate the value of food apps: not only are most operators already listed on these apps, but they also see reasonable volumes of business generated through this channel.

Consumers use food apps to:

- Order a meal: 31%
- Find a restaurant to try: 24%
- Read a restaurant review: 16%
- Look for a discount: 15%

Are you listed on food apps?

No, not listed: 13%
Yes, listed on food/delivery apps: 87%

Do you see value in them?

65% Reasonable volumes
31% Do not contribute much
4% Volumes not tracked

KPMG
Apponomics
On the face of it, it seems that food and delivery apps are carving out their own share of the market, at the expense of traditional eating-out business. The reality is that consumers who have chosen the convenience of ordering food through these apps have already made a decision to not eat out. Food and delivery apps provide the operators with an opportunity to still benefit from such business by offering another option. Hence, it is only fair for operators to consider these apps as a new, complementary channel to the traditional model of reaching consumers, and not a competitive threat.

From the operators’ perspective, apps present a compelling proposition: the revenue net of food costs and charges from the apps directly impacts their bottom line. This is incremental revenue and profit. Apps can also be used as a new marketing tool for operators to promote search-and-discovery, as well as to roll out discounts and offers.

For the consumer, using apps offers savings in the form of time and a lower food bill – as evident from the average spend for takeaways versus eating out. They are also saved the hassle of driving, in heavy traffic at times, and finding parking.

Economics of delivery from the consumers’ perspective

‘Deliverution’
Another way in which food apps are transforming the F&B landscape is by creating a level playing field. Before the advent of food and delivery apps, offering delivery options to consumers meant a sizeable investment by the operators to create the necessary infrastructure. Today, the apps have taken away this need, allowing small- and mid-sized operators to offer delivery without incurring major upfront costs. As a result, there are a number of new delivery-only concepts that have been introduced. Even operators with existing delivery capabilities are looking to use third-party delivery to manage demand spikes. As businesses adapt to the delivery model to grow their revenue and profits, this will create the next wave of change within the F&B industry and a trend around ‘deliverution’ – a delivery-led revolution in the way business is run.
Man versus machine

While technology is having a marked impact on the F&B industry, the core of the business, and its real strength, is still its people and its food. The quality of food and service is by far the biggest differentiator for a F&B business, and both of these relate to the human element of the business. While consumers are generally happy with the quality of service offered by restaurants, over a third felt there was some room for improvement, primarily through better staff training.

Staff training and retention top the operators’ agenda as well, with over 50% stating it as one of their operational priorities for the coming year. With current market conditions, however, and regular attrition, they continue to be cautious in upskilling their staff. At the same time, with margins under pressure, some of their focus has moved to optimizing costs, at times through staff rationalization, rather than staff training.

That said, operators who invest in, and take good care of, their staff tend to be the same operators that have a reputation for a positive customer experience. Investing in staff makes sense as it helps differentiate, which leads to better business.

Investing in staff makes sense as it helps differentiate, which leads to better business.
What lies ahead?
Technology will continue to be a disruptive force within the F&B industry and ‘deliverution’ is changing the operating model. Operators have been looking to leverage technology to improve operational efficiency, enhance customer engagement and ultimately, grow the topline. Some of the ways in which technology is being deployed by the operators in the UAE, that could redefine the way businesses run today, include:

– Digital kiosks for ordering and payments are already being deployed by F&B businesses in the UAE. As consumers become more tech-savvy, such kiosks would be the way forward for F&B businesses, especially the QSR concepts, to reduce queues and drive greater efficiency.

– Restaurant reservation apps are also beginning to penetrate the F&B industry, especially within the fine and premium-casual dining formats that take advance bookings. We believe these apps will also gradually find their own niche in the market.

– An international food tech player has recently launched a shared remote kitchen in Dubai, which aims at offering several cuisines on a delivery-only basis to high-density catchments. This concept addresses an important pain point for the industry around outlet rentals, allowing for a lean business model. It is likely to do well in the UAE.

– Large operators with a presence across retail and F&B have been looking at data analytics in a big way. The process of customer data gathering is already under way and gradually these efforts could become a powerful tool for these operators, which will allow them to differentiate themselves in this crowded market.

– A few food & beverage operators are beginning to use virtual reality (VR) to enhance customer experience. One such ‘wow’ experience that has already arrived in the UAE uses 3D projection to portray onto the diners’ table top a charming scene of a miniature chef preparing a meal.

Technology is redefining the boundaries of the industry and the business of how, when and where people eat are being challenged every day. While technology plays its role in the F&B sector, the core concepts of the industry are unlikely to change. The business is essentially about the quality of food and experience offered, along with superlative service and ambiance. Businesses that get this right will ride the wave.

KPMG view
Technology is proving to have a disruptive influence on the traditional F&B business model and the adoption of food and delivery apps is creating a new channel for business and customer engagement for the operators. ‘Deliverution’ will certainly change the way F&B businesses work today, perhaps more rapidly than one would have thought.

We, therefore, believe that businesses that are early adopters of technology will position themselves well for success as the market evolves. We also feel that there is a need for operators as well as food tech companies to work more closely and with greater transparency to achieve a win-win outcome.

At the same time, it will be important to keep a watchful eye on – and invest in – the human element. People have, and will always be, the greatest strength of F&B businesses and it is critical to invest in their development and training to offer the best quality to customers. F&B businesses will also benefit from temporary and part-time staffing, a key characteristic of F&B businesses globally.
Order summary

Key findings and conclusions

1. While demand continues to be robust, most Food & Beverage businesses are faced with challenging times, primarily on account of oversupply and increased competition. The medium-term outlook for the sector continues to be positive.

2. While the F&B consumer is becoming more discerning, adventurous and deal seeking, quality is still the key to attract and keep them coming back.

3. With the current market challenges, operators have set their sights on opportunities in the GCC region. This will require meticulous and thorough planning on their part.

4. The economics of the business have changed in current times and a strong control over costs, while managing customer experience, will be critical to achieving the right financial outcome.

5. Technology is disrupting the industry more so today than in the past, and in a number of different ways. ‘Deliverution’ (delivery via apps) is set to change the business model of a number of operators in the coming years. The great strength of the F&B business, however, will still be the quality of its people and great food.
Our recipe

We explain who we interviewed – both consumers and industry executives

Ready to serve reflects the viewpoints of close to 800 respondents living across the UAE. The online survey was conducted in the second quarter of 2017.

For the first time in the KPMG series of Food & Beverage reports, we also interviewed consumers living in the other GCC states in order to understand consumer behavior and preferences in these countries and compare and contrast with our UAE findings. We covered 350 respondents across Riyadh, Jeddah, Khobar (Saudi Arabia); Muscat (Oman); Doha (Qatar); Kuwait City (Kuwait) and Manama City (Bahrain).

As with last year’s report, we spoke to key decision makers at over 20 UAE F&B businesses, representing more than 100 brands and over 1,500 outlets, and one of the UAE’s predominant food tech players. Using a combination of open and closed questions in wide-ranging interviews held in the second and third quarters of 2017, we tested hypotheses suggested by our consumer survey and elicited views of the current and future state of the market.
To help support and grow F&B businesses

**KPMG services**

### 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
- Sell-side M&A

### Operations
- Internal audit
- Operational reviews
- Compliance reviews
- Store audits
- Development of SOPs
- Enterprise Risk Management

### Tax
- VAT impact assessments and preparation
- Tax structuring
- International tax
- M&A tax solutions

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

### Digital
- Digital strategy
- Customer experience transformation