Uncovering the Lebanese Restaurant Industry

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Contact Information

Research Assistant: Riwa Daou

riwa.daou @blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

The Lay of the Land

Food and Beverage are deeply embedded in the Lebanese culture. The traditional table of Lebanese mezze nurtured a love for variety, sharing and authenticity amongst the Lebanese people. The successful restaurateurs in the country relied on these cultural concepts to win over the crowd and most recently to weather the slowdown in business.

The Lebanese restaurant scene surely had its drawbacks since 2011. In 2010, Lebanese restaurateurs were looking to cater for some two million tourists. After the war erupted in Syria, tourists, especially from the gulf, shied away from Lebanon and the economy began to recede under the strains of the political stalemates and the repeated security incidents.

From a broad sense, slower business led to a crowding-out effect. The restaurants that chose to hastily enter the business in the boom-period, soon felt the pressure of harsher conditions and had no choice but to lock-up and leave. Those who survived are either:

- the ones with a loyal, established niche clientele and sufficient cash-flow to continue operating under tough conditions, most likely in the medium to high-end segments
- the ones offering an authentic experience with which the consumers have grown familiar and which entails a reasonable price tag
- the ones who have maintained the best mix of consistency and affordability over the years

According to Mr. Walid Hayeck, CEO and Co-Founder of DAWA Entertainment, a business development, management and consulting firm[1], the regression in the restaurant industry across all regions is estimated to be around 10 to 15% per year. Interestingly he points to the fact that due to the shift in consumer preferences and the new reality of tourism in Lebanon, the high-end segment was indeed the most affected by the slowdown in the sector. If one is to gather market insight from the remaining high-end restaurants in the business, one might think the high-end segment has been shielded from the regression. However, that conclusion is flawed due to what is dubbed a “Survivors’ bias”. The current restaurants in the high-end segment are registering higher turnovers, true; however, these restaurants represent the few survivors or “success stories”. In reality, many other high-end restaurants closed their doors since their cash-flow management and operational system did not allow them to whether the slowdown and adapt to the new context.

[1] DAWA’s portfolio includes Dany’s, Main Street, Wall Street in Lebanon and Stereo Arcade in Dubai

Particularly in Beirut, restaurants offering new concepts and experiences with an average check were able to enter the market under the tough political and economic circumstances. A vivid example is the proliferation of new restaurants in the central Beirut area where the market witnessed a 3.47% growth in the number of restaurants in 2015, according to Hodema. In Beirut[2], the number of food-goers is the same, it is now however dispersed across a larger pool of restaurants.

At first, it might seem counter-intuitive to see the number of restaurants increase in a context of poor economic growth. However, Hodema explains this phenomenon by the fact that the new lifestyle allows little time to cook at home, especially with more and more households where both partners are employed, and by the fact that going out for food is still the most appealing and developed leisure for the Lebanese.

Market Segmentation

Seekers of a gourmet experience, a varied menu, comfort-food, traditional mezzes, specialized cuisines or a quick bite on-the-go can all find what they are looking for in Lebanon, at different prices. In fact, the market can be segmented according to numerous criteria, of which the most common is the average check. In high-end restaurants, the average check can surpass the $90 for a full lunch or dinner experience in restaurants like Burgundy, The Grill Room, Indigo on the roof, La Parilla, Aldente, Baltus and Sushi Bar. Metropole, Kampai, Gavi and Babel fall in the medium to high range where the average check varies between $60 to $90. In the medium segment of the sector the average check range is $30 to $60 in restaurants such as Leila, Kabab-ji, Margherita, Olio, Duo and Mandaloun. In the Medium-low segment, the average check is below $30 in restaurants such as Roadster Diner and Crepaway. Restaurants in the medium and medium low segments manage to have the highest turnovers and the highest number of outlets across the country since they capture the largest chunk of the Lebanese population.

The High-End Segment: View from the Top

The high-end restaurants, which managed to pull through the tough times, are doing well. High-end restaurants with a niche, loyal clientele actually managed to register higher turnovers. Since the elite constantly seek differentiation, the strategy of high-end restaurants is based on creating not just any experience but an eclectic one that the customer can't find anywhere else.

With a small pool of clients, expectations are high and attention to detail is a "make it or break it deal". The consumer would forgive an average restaurant for a mishap but wouldn't easily let the high-end segment slide for that same mistake. According to Mr. Ziad Mouawad, Partner and Manager at Burgundy, "it's safe to say that Burgundy is the only restaurant in Lebanon where the cost of food makes up 50% of the total costs. Therefore we set the bar really high in terms of the quality of the food we present on our table and our clients expect the very best".

The remaining high-end restaurants pulled through but have witnessed slight spending changes amongst consumers. A slight retreat was noticed in the average check. This is explained by lower corporate spending which makes sense in a low-growth environment where firms bring in lower margins and seek to reduce their costs. The lower average check is also linked to consumer psychology, whereby "festive" spending on expensive wine for example retreated. The political stalemate, the recent trash crisis and the accompanying protests in the downtown area negatively impacted the consumers' mood altogether.

High-end restaurants not only seek to attract the elite but also seek to capture the middle-class consumer in search of new culinary experiences. The top-notch restaurants always focus on maintaining their exclusive set of clients but are also interested in enlarging their clientele's scope. The middle-class consumer may not become a regular but can become an occasional client acting as a buffer and generator of extra revenue in relatively low stages of the business cycle.

[2] Bliss, Hamra, Verdun, Down Town, The Park Zone, Zaituna Bay, Monnot Sodeco, Gemmayze, Badaro, Sassine, Mar Mikhael

Consumer psychology is a skill Lebanese restaurateurs appear to master and to count on through rough patches. The façade and the image conveyed to the consumer are essential. According to Mr. Mouawad, a high-end restaurant would rather have a full house and breakeven than to have a few occupied tables and generate profit. The full house transmits the message that the wheel is still spinning in that restaurant despite the general depressed mood.

The Medium Segment: The Biggest Audience and the Largest Turnovers

The restaurant industry has become less of a high-end commodity and more of a middle-class commodity. In fact, the medium segment is "where all the money is": the restaurants with the highest turnovers and the highest number of outlets range in this category as they capture the medium-low audience as well as the medium-high audience. The combined turnover of the top ten medium restaurants amounts to around $123.35M per year.

According to Mr. Hayeck, the Lebanese population is sliced into three categories according to a 20%, 80%, 20% rule. The bottom 20% earns less than $1,500 per month. They don't have a disposable income in the sense that a large bulk of their salary goes to covering basic expenses leaving little room for a leisure budget. The middle 80% are the individuals earning between $1,500 and $10,000 per month while the upper 20% are earners of more than $10,000 per month.

According to Mr. Hayeck, prior to 2010, 90% of Lebanese restaurants were targeting the upper 20%. The targets were the jet-setters and the heavy spenders of the gulf countries. After 2010, the security situation in Lebanon and the region compelled Gulf countries to issue travel bans for Gulf citizens wanting to visit Lebanon. Moreover, the jet-setters and even the Lebanese expatriates shifted focus away from tourism in Lebanon and towards tourism in Mykonos or Dubai. Locally, the philosophy of "less is more" and the hunt for authentic experiences toppled the "show-off" culture of frequenting high-end places offering an expensive meal. After 2010 and till this day, the consumer is looking for price-to-value. With plenty of choices on hand, the consumer has become a harsher critic, looking for an experience, a setting, quality, variety, cleanliness and affordability.

According to Mr. Joe Njeim, one of the partners in Leila, "the creation of an identity and a story behind your restaurant is crucial for your success". It is important for the restaurateur, especially in Lebanon, to adapt to the culture of the people. The story of Leila bringing recipes from the village to the city is a good spin for the Lebanese market and works well with the traditional and authentic identity of the country and its people. This same identity is what allowed Leila to be one of the few and most successful Lebanese restaurants to enter the Gulf market. Before the security situation in Syria went sour, tourists visiting Lebanon from the Gulf grew familiar with Leila as a destination for Lebanese food with a twist and that made it easier for Leila to sell its franchise in the GCC.

This need for a restaurant to understand the audience it is targeting is not only important for the creation of identity but also for deciding on location. A high-end restaurant would not succeed were it to open inside a casual shopping mall while a "more-relaxed" medium or low end restaurant with a varied menu might excel.

So, the million dollar question: Should a restaurant open its doors in a mall or not? First and foremost, not all restaurants can open their doors inside malls. The identity of the restaurant has to be compatible with the identity of the people visiting that mall. If that match is made, the advantages of operating in a mall are the guaranteed footfall, the convenience and amenities that a mall offers while the downsides are the high rent, the large bills (restaurants have to pitch in with certain common mall expenses such as the Christmas decoration) and the fact that the restaurant is at the mercy of the mall operator which also wants a cut from the restaurant's sales. As for restaurants outside malls, they can find lower rent but on the other hand have to invest vastly in marketing campaigns in order to spread and better define their identity and they have to depend on themselves in order to find a location with ease of access and parking spaces.

When managing several ventures in the restaurant industry, a good strategy for surviving the ups and downs of the sector is to avoid "competing with yourself". The best way to hedge against fluctuations in the business cycle is to avoid "putting all your eggs in one basket" by creating concepts that appeal to different tastes and categories. Another strategy is to capture an entire segment such as Itlalian with several brands. The Boubess Group for example managed to create several Italian concepts and captured a sizeable chunk in that cuisine.

Tough Times Call on the Restaurateurs' Adaptability Skills

Survival in tough times also dictates the inevitable fate of cutting costs. Restaurants are more mindful of the smallest details in their cost structure, simply because with slower business they can't afford to spend randomly. Citing concrete examples, Mr. Hayeck notes that most restaurants have timers for their air conditioners, others are installing photocell sensors to cut down on energy costs: the light bulb dims whenever there is natural sunlight and switches on only in darkness. Reducing staffing costs and when possible, purchasing cheaper food products for the same quality are also factored into the restaurants' coping strategy.

Faced with slower activity on the market, restaurants also tapped into foreign markets. Restaurants started looking across the border not in search of higher profits but rather simply in search of increased revenues. The most attractive foreign markets are the United Arab Emirates and Saudi Arabia. The Kingdom of Saudi Arabia offers the benefit of having a large population of some 28 million while the United Arab Emirates are attractive due to their population's high income and hefty tourist activity.

Expansion abroad or franchising is no easy task. According to Mr. Hayeck, the failure rate can go up to 80%. First of all, the restaurant must have a "franchizable" business model right at the bud, from the ground up. The restaurant looking to franchise must draft clear, detailed and simple instruction in the franchising's standard operating procedures (SOPs). Having a successful franchising experience is not about selling your concept to the highest bidder. Rather it is a matter of finding good operators that apply logic and commonsense when following the SOPs, that ensure the sustainability of the concept and that adapt the concept well to the new market. A big challenge of the franchising procedure is making sure the customer finds the same taste, quality, cleanliness and experience wherever your restaurant is implemented around the world. By visiting a certain brand name abroad, the consumer is betting on the trust he has established with that brand. Remaining true to that trust requires joint efforts from both the franchiser and the franchisee, especially in cases where cultures and contexts are different.

Hodema however states that the concept of franchising is still at an embryonic stage in Lebanon. The learning curve of Lebanese restaurants in the franchise field is still growing and the number of outlets Lebanese businesses have abroad is negligible when compared to foreign businesses. Lebanon is an importer of franchises for clothes, food and others and is not yet a full-fledged exporter. An interesting nuance, according to Hodema, is that in the US a restaurant must operate for at least 5 years and have three outlets to qualify for a franchise; Anything under 5 years and three outlets is called a license. Operating a restaurant and its outlets on the long term build professionalism and a track-record, which are essential for a successful franchise operation.

Future Trends

The geographical distribution of restaurants is shifting every three to five years. The first hub for restaurants, bars and cafes was Monnot, then Gemmayze stole the spotlight only to find itself toppled by Mar Mikhael which was followed by Badaro. This regular shift can be partly explained by the fact that restaurants follow cheap rent, access and parking. Rent in particular is a critical issue in Lebanon, where rent laws are not properly regulated. The landlord can choose to claim back his property without disbursing a compensation for the existing tenant. There are also no caps on rent increases, giving the landlord full freedom to up the rent when he sees that the restaurant occupying the property is doing well.

Other migration drivers for restaurants are areas that get them closer to their consumer. The consumer now cares about convenience and is also more intolerant in terms of comfort in getting to his destination and no longer turns a blind eye to elements such as traffic. A vivid example is Roadster opening its doors in Jbeil for all the people who want a Roadster meal close to home rather than in Jounieh. Concepts are now following the consumer: In the next few months, a restaurant cluster with 20 F&B outlets will open in Hazmieh to cater for that region. Blueberry Square is already up and running in Dbayeh while a new cluster in that region called "The Village" will open its doors soon.

What the Sector Needs

The lack of government utilities such as water and electricity, but also corruption are major hurdles for the Lebanese restaurateur. Corruption makes way for "double-standards" and allows for illegal players to enter the market and make it harder for legal players to pull through. You may find restaurants that have acquired their operating license, are registered in the VAT, whose employees are signed up at the National Social Security Fund and for the ones serving alcohol who purchase it from authorized dealers and find that right next door a restaurant meets some or none of these requirements.

According to Mr. Hayeck, equal enforcement, fair compensation for government employees and strict penalties are the remedies against corruption. Once equal enforcement is put in place, the general rule would become to comply with the rules instead of working around them or outright break them. Fair compensation for government officials would make the attractiveness of a "bribe" less appealing while stricter penalties would make the consequences of accepting a bribe harsh and deterring.

There are serious deficiencies in terms of quality standards and food safety benchmarks. In the absence of any real quality standards and benchmarks set by Lebanese authorities, restaurateurs were compelled to run "Auto-Controls" to monitor the quality and cleanliness of the products they offer at their tables. Restaurants have their own water recycling machines and they send the produce received from the suppliers to laboratories such as the American University of Beirut's Lab and the Ghorra Laboratories. Roadster even has its own Laboratory for testing. For importers of produce, the cleanliness in the handling of the imports is even trickier as the storage spaces at the airport are below the standards. Checking controls may even entail unnecessary delays, which negatively impact perishable and expensive goods in particular. According to market players, the crackdown led by Minister Wael Abou Faour helped raise awareness towards the importance of food safety. However, actions must be undertaken at all levels of the food supply chain, from the top down.

A stable political and security environment is the single most important factor that the sector needs to thrive. Given the recent events in the country, the worst-case scenario is always factored into the restaurateurs' feasibility studies. According to Mr. Hayeck, 30 days of bad business are taken into account yes, but a state where the whole country is dysfunctional is not, it rather deters the restaurateur from opening its doors to the public altogether."

For your Queries:

BLOMINVEST BANK s.a.l.
Research Department
Bab Idriss, Dowtown Beirut

Riwa Daou, Research Assistant
+961 1 991 784
riwa.daou@blominvestbank.com

Marwan Mikhael, Head of Research
+961 1 991 782
marwan.mikhael@blominvestbank.com