

hodemahighlights



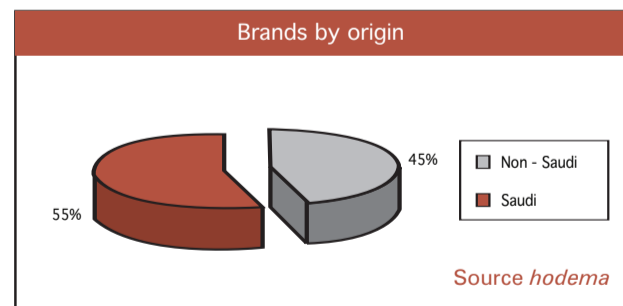
Overview: Jeddah food & beverage market

by Karim el Asmar from *hodema*

How is the market structured? Is there a leader?

F&B market in the city is constantly developing and diversifying. The most noticeable component of this expansion is the increasing number of Saudi brands and chains that are leading the market. Indeed, while the market holds international brands such as Chili's, Applebees, TGI Friday and Mc Donalds, it also holds Saudi brands such as Al Baik, Kudu, and Herfy, to name but a few. *hodema* performed a study on the restaurant franchise market in Jeddah selecting the representative brands in each segment - high, mid and low-end. Over thirty brands studied, 55% were Saudi developed brands while international & regional brands represented only 45%. In our study, international and regional brands accounted for both American and Lebanese brands. Even though the latter are very much in the scene introducing new concepts on the mid and high markets, the number of outlets remains small with only one unit per brand.

Nationality of brands in Jeddah, 2007



Al Baik brand with 35 outlets is the leader on the chicken segment and in terms of number of outlets in KSA, exceeding the international Mc Donald which holds a respectable 27 outlets in Jeddah and way ahead KFC- the world leader on the chicken segment with 8 outlets in Jeddah.

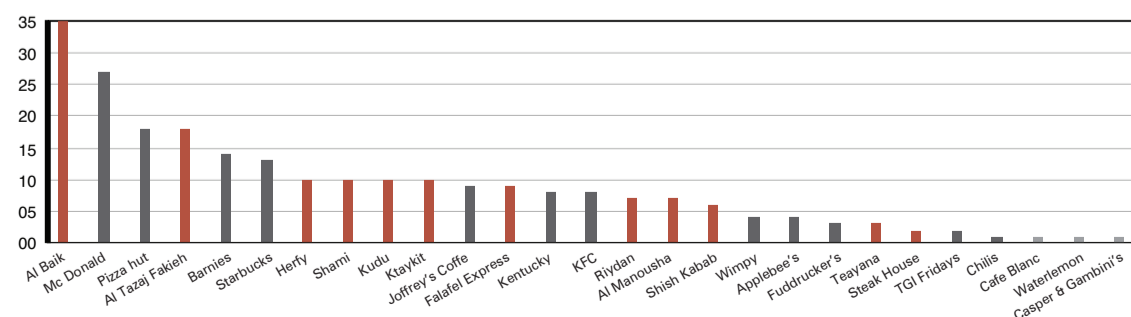
Touring the city, one finds that the F&B market is segmented geographically depending on the market segment. For instance, low-end outlets are mainly concentrated in Hira, Falastin and Kumaish. Mid-end restaurants are usually located in Sari, Corniche, King Fahed and Madinah street, whereas high-end segment is mostly located in the areas of Tahlia, King Abdul Aziz, Andalous, Rawda and Corniche.

The segmentation into high, mid and low-end was derived from the average check that we calculated based on a comparable consumption in every outlet. We categorized all average check

below 30 SAR as low-end market, between 30 and 110 SAR as mid market and above 110 SAR as upper market. The highest concentration of brands turned out to be in the low market. Up till recently, the mid market was only occupied by American brands, but with outlets such as tye Lebanese Casper and Gambini's, Café Blanc and Waterlemon, one can observe a supply diversification in this segment. Moreover, outlet developers in Jeddah used to bring little attention to the design. In a city routed in its culture, history and tradition it didn't seem to matter. Nevertheless today, Jeddah is rapidly modernizing with the potential to become the hip destination in KSA. The most recent developments in the F&B scene are occurring on the high-end segment usually opting for a trendy theme, and new brands like Teayana, Bubbles, Java Lounge and Café Blanc are creating this fashionable image in the local F&B industry. Such outlets are putting forward the interior design and modernization of their menus. They have easily attracted a new generation of consumers who have been exposed to international & regional trends and are eager to witness similar innovations in KSA. While American style and product themed brand Al Tazaj and Kudu have already announced ambitious goals for their development, much remains to be done at the level of ethnic cuisine. Indeed, in a multi ethnic city such as Jeddah, ethnic cuisine has a fertile ground. The focus in development so far has been on Asian and Lebanese ethnic cuisines. Other types of cuisines are yet to be modernized in their offer. The recent introduction of Jeddah-Jeddah and Thai-Thai brought a new style to a segment in need of renovation. Such developments could trigger a new trend in this dynamic market.

More opportunities to come...

There are still a lot of opportunities for growth in the entire market segment. However, the market has to face a lot of



Are Saudi brands leading? Is there room for other brands? How is the market developing?

With an estimated population of 3.4 million, and more than 5 million visitors every year (the highest number of visitors in KSA), Jeddah today is booming, and more precisely its Food & Beverage segment.

Unlike other gulf cities, which are currently witnessing a massive-almost instantaneous- growth, Jeddah is a well established city with an extensively developed roadway system, infrastructure and zoning. Such urban maturity adds to the interest of the recent real estate developments, and the surge in the prices. This expansion is also driven by the increase of the shopping and Food and Beverage activities, two major leisure activities in Saudi Arabia and, noticeably, commerce is very much developed outside the malls with well structured service roads.

Nevertheless, Jeddah does not escape the mall frenzy, and the city is witnessing a growth on that segment. Mall quickly becomes a family full leisure destination and, subsequently, the F&B becomes a center corner in this activity. When visiting the Dead Sea mall, one can observe the diversity of concepts offered in the food court with a display of brands illustrates both the level of development and the dynamism in the Saudi market. It also displays the multi-ethnic ability of a city like Jeddah.

challenges. The boom in real estate and the construction lagging behind not only put pressure on the rental prices but also on outlets' availability for exploitation since they are booked long time in advance. On the other hand, the recent developments in F&B market have opened the eyes of investors on this lucrative line of investment as a mean to diversify their portfolio or simply because it is a fascinating industry. As a result, the market has become a boiling environment thus increasing uncertainty and financial concerns. The recent savvyness for franchises has not proven successful for some operators who may have ventured quickly into these investments relying only on brand attractiveness while taking a short cut on market analysis and on core issues.

Opportunities certainly do exist but the success of any brand, concept or franchise is not only money invested & simply contract signatures. A lot of factors have to be imperatively considered such as the concept, the investment, the know-how, the location, the target, the brand, the staff training, etc.

The market is also pressured for skilled labors. Indeed, human resources remain an issue for any operating outlet, especially today that the market standards are increasing. The industry in KSA is suffering from the limited skill labor which is due to causes like work visas, insufficient training and high number of outlets.

Nevertheless, brands such as Al Baik and Casper & Gambini's were able to build their notoriety on the professionalism of their service and are today considered as references in the industry.

In conclusion, Jeddah is changing and outlets such as the Habsburg in the Rosewood hotel are lifting standard in the high end while Al Baik -positioned on the budget segment- has managed to implement very high standards in terms of cleanliness and value for money. Customers are becoming increasingly demanding and the standards are yet to be brought to level. Observers wonder if it will be possible to lead both the country's will of nationalizing the workforce, and the development of service standards. The dynamism displayed by Saudi brands expansion sheds a ray of optimism when observing the industrious and entrepreneurial Saudis at work.



Our main goal in Saudi Arabia is to maximize our clients output not only from their assets but also from their team's direct efforts. We stand by them with our hands directly on the job to provide them with uncompromised input...

Interview with *hodema* Managing Partners Karim el Asmar and Nagi Morkos

After celebrating its fourth year in Beirut, *hodema* opened a permanent office in Jeddah, Saudi Arabia, in the scope of its regional expansion.

1 • Can you present *hodema's* services and mission?

We are a Lebanese management and development consulting company in the hospitality and tourism sector created in 2004. However, each of the managing partners has on its own more than 10 years experience in that field. Our services cover a wide scope of expertise: concept development, property management, commercialization and marketing support, strategic consulting, operational support, training programs, market and feasibility studies, as well as quality control and franchising counseling. *hodema* can implement a hospitality project from A to Z; it can also interfere at different stages of the mission offering continuous support and key solutions to different projects -hotels, restaurants, SPA, touristic projects, etc.- with the Middle East and Gulf as target markets.

Our mission is not simply to give general advices; it is in improving the ability of our clients to find the solutions within. We stand by them with our hands directly on the job to provide them with uncompromised input.

2 • What do you think about KSA perspectives in terms of F & B and hospitality market?

The hospitality and F&B market in KSA is still at its early stages and holds a huge potential. However it is very promising due to many reasons: Saudi government has embarked on large economic reforms to diversify Saudi economy. This diversification concerns among other

sectors the hospitality and tourism markets which explain the recent growing number of projects in that field. This growth is supported by the political climate in Saudi Arabia which offers a sustainable and stable environment as well as the increase in oil prices that have boosted the Saudi economy and results in enhanced cash availability.

3 • What are *hodema's* goals in KSA?

Through *hodema's* implementation in Jeddah, we seek to take an active part in this amazing growth. Not only we aim at providing our expertise, know-how and turnkey solutions to local project developers, but we also intend to create a local know-how in the country and optimize existing human resources' potential through professional on-job and off job trainings, seminars, workshops, etc. Our main goal here is to maximize our clients output not only from their assets but also from their team's direct efforts.

4 • What are the current projects you are working on in KSA?

Our current missions in KSA are varied and include, among other involvements: the opening of a Food & Beverage high-end project that we are executing from scratch as a turn key assignment. We also performed various studies of the KSA hospitality, hotel, Food & Beverage and related real estate market describing strengths and weaknesses and highlighting the interesting areas and rising trends to be exploited. We are currently undertaking a study for a low-end F&B chain and implementing several Lebanese F&B operations in KSA.

5 • How do you see *hodema's* know-how as an added value in the Kingdom?

We, as founders and managing partners, are professionals in the hospitality business with various and complementary backgrounds and experiences. Each one of us has been working in that field in the Middle East region for more than 10 years. Not only we offer our know-how and understanding of the hospitality market, but we also proceed with a strong feeling of involvement and ownership in every project we manage. We have also on our side, a team composed of high profile specialists, analysts and consultants with strong hospitality, leisure and tourism knowledge. Last but not least, we have built throughout the years a large regional network in the hospitality field that we put at the disposal of our clients.



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Elaboration of Operating Manuals and strategic support for a restaurant

Djibouti

hodema developed operating manuals and assisted in the elaboration of Branding and Architecture manuals for an open-kitchen fish restaurant located on Djibouti's sea front. This outlet which offers various types of fish from different parts of the world with original cooking styles is a main tourist attraction in the city. The client's objective was to standardize its operation, its architecture and its branding specifications in order to franchise the restaurant in various countries. As a first step, *hodema* performed an assessment of its operation and presented various recommendations in order to improve the restaurant's procedures and complete the various manuals required.



Development of a Lebanese restaurant chain

Beirut, Lebanon

The assignment was to elaborate a market and feasibility study for the creation of a modernized Lebanese restaurant in Beirut, to be franchised in the Middle-East and Gulf region. The mission included an assessment of the Lebanese restaurants market in Lebanon, an overview on the ongoing franchise development of Lebanese outlets in the Middle East with the risks they encompass as well as a concept definition and evaluation. *hodema* offered strategic support during the whole process and came out with various "hands-on" recommendations for the creation of a flagship outlet in Lebanon.

Opening of the first outlet of a pizzeria chain

Beirut, Lebanon



With the ongoing support and assistance of *hodema*, a new pizzeria outlet opened in Beirut on Gouraud Street, Gemmayzé area. *hodema's* role in this project was prominent: after performing the market study and defining the concept, *hodema* piloted the project throughout the development phase providing consulting on the legal structure, financial engineering, support in the negotiation for raising capital, and follow-up on the various construction phases. This casual outlet is the flagship of a pizzeria chain that is planning to open in a near future in different countries of the Middle East region. For the first time in Lebanon, a pizzeria is headed by one of the country's renowned Italian Chef, offering high quality of food and new recipes in terms of casual Italian food. With a sculptural oven as an icon and an open kitchen, the pizzeria is set to become a landmark in Beirut restaurant market.

Project development of a Thai restaurant

Jeddah, KSA

hodema completed the preliminary phase of a turnkey project for the development of a high end Thai restaurant in Jeddah. *hodema* carried out a market and a feasibility study and assisted the client in outlining his objectives and requirements. Subsequently, the restaurant concept was developed taking into consideration client's target and the market outlook. *hodema* also offered recommendations on the most suitable area in Jeddah to develop this project and advised on the design, the service, the commercialization, the architecture, as well as the interior and graphic design. It identified the success factors of such a project on the regional market.

Strategic support for the development of regional franchises

hodema was engaged on several missions involving strategic support to restaurant brands in order to help them develop a franchise activity in the Middle East and Gulf regions. As a first step, *hodema* led an assessment on the outlets to define their strengths and weaknesses before assisting them in the restructuring and reorganization of their activity. *hodema* was then engaged at all strategic levels including operation planning, budgeting, branding and communication, negotiation with investors and franchisees.

Strategic report for a Charm hotels chain

In the process of developing a chain of Charm hotels in the Levant, *hodema* started by establishing a strategic report on the market and its opportunities in that field. The report was based on a description of the international hospitality market structure and an evaluation of what should a developer's financial expectations be in the hospitality industry. *hodema* presented a review of the Charm hotels market in the Levant, and evaluated its client's potential strategic options providing recommendations and solutions to best answer requirements.

Operation development support for a flagship outlet in Lebanon

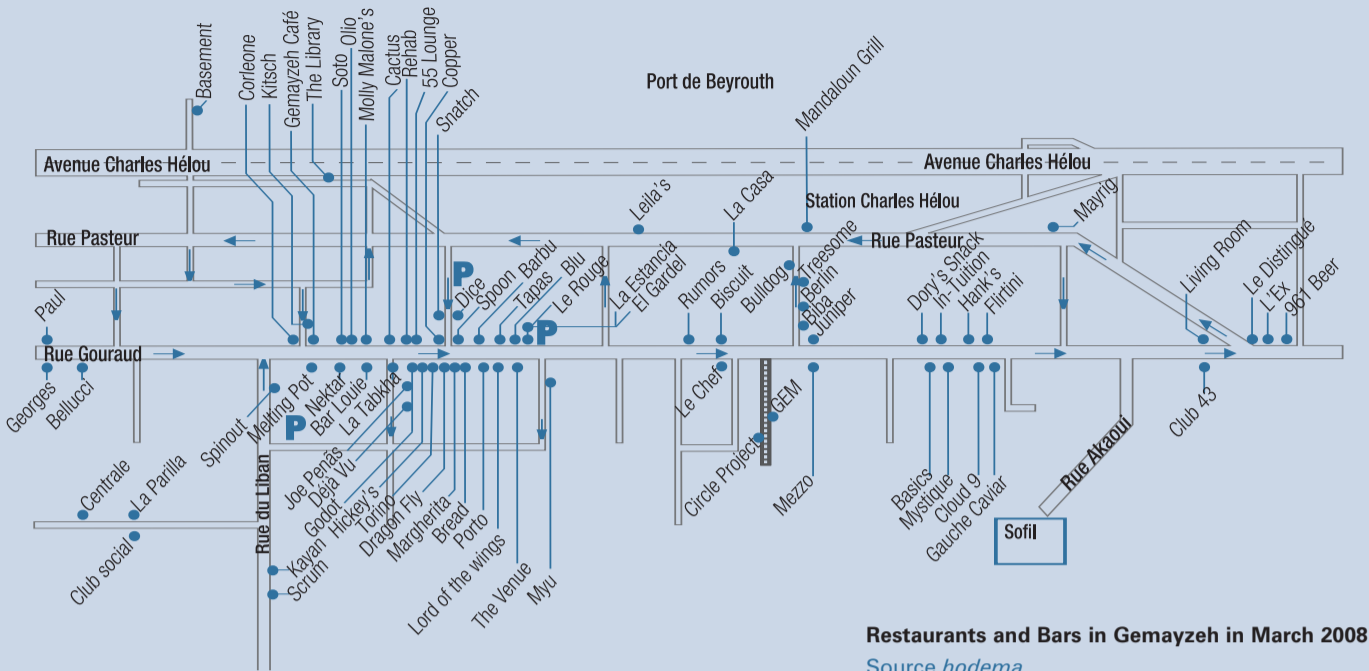
Beirut, Lebanon

hodema's main objective for this mission was to offer strategic support and elaborate operating manuals for a coffee themed chain. However, in order to create efficient manuals and achieve appropriate outcomes, *hodema* started by running an assessment of operation, as well as an evaluation on its main structure, concept definition, human resources, and branding and communication. *hodema* came out with various recommendations which constituted the starting point of the operating manuals elaboration.



Training *hodema* / 
Beirut, Lebanon

hodema carried out a two-days training organized by APAVE Liban on the subject of Operating Manuals in the Food Industry. The sessions were held at Hazmieh Rotana Hotel on March 6th and 7th 2008 in presence of representatives from major food and catering companies and restaurants, academic institutions and hospitals. For the purpose of the seminar, *hodema* developed a new methodology for the elaboration of Operating Manuals in the food industry. The presentation was performed by Karim el Asmar, one of *hodema's* partners, and included interactive workshops and case studies.



Restaurants and Bars in Gemayzeh in March 2008
Source hodema

Gemayzeh: 15 million dollars invested in restaurants and bars

This article was written by **Nagi Morkos** from *hodema* and published in French in "Le Commerce du Levant"- N° 5580, May 2008

The Gemayzeh neighborhood has attracted 15 million dollars worth of investments during the past 3 to 4 years. This amount is significant taking into account the instability and insecurity that are shaking the country. However, this situation might also have paradoxically contributed to its success. Nevertheless, this amount becomes measly, considering the number of establishments that the area is peppered with. According to a study conducted by *hodema* s.a.l., the number of these establishments amounted to 64 last March, 3 times the number of establishments that were around, less than 5 years ago. Indeed, there were no more than 20 establishments in 2003.

Average investment per establishment amounts to 200 000 dollars, which reflects the category of the area-middle-class bars and restaurants. By comparison, we find that the Damascus road for example holds much less restaurants which are, however, characterized by their large size, and therefore, higher costs. Thus, you can find establishments such as La Piazza, Market, el-Paladar or Yabani that have all required more than 1 million dollars worth of investments. In total, with its 15 establishments, the Damascus Road attracts more capitals than Gemayzeh does and continues to do so with new projects underway.



In the Gouraud St. and Pasteur St. and the adjacent alleys, there are 29 bars out of 64 establishments in total, which accounts for 46% of the total number of establishments. These bars are usually small establishments with large windows and direct street access.

The new owners often buy old facilities and establishments that have ancient designs.

Here, we are talking about traders and artisans. Sometimes, the negotiations are tripartite and involve the old tenant, the new tenant, and the initial owner.

Given the fact that the Gouraud Street was saturated with bars with large windows, some owners started opening bars upstairs, such as the Argentinean bar El Gardel and La Estancia restaurant, both located on top of the restaurant « Le Rouge ».

All these bars that opened in Gemayzeh accentuated the public's perception that the neighborhood was a nightlife destination. This

might attract other investors interested in owning nightclubs or bars, but their ventures will be limited due to the small size of the available venues.

However, although it is a nightlife destination, there are no nightclubs in Gemayzeh. "Le Cactus" was able to overcome the size obstacle in 2005 when its owner took the risk of opening a venue that stretches over 170 m², which is far bigger than other restaurant-bars in the vicinity. Some people note that this venture has transformed the conception of the Gemayzeh neighborhood, since other establishments followed suit later (Copper, The Venue).

As for restaurants, there is a wide array of cuisines in Gemayzeh, from traditional Lebanese cuisine (Le Chef, a 1967 pioneer, the "Ahwet el Kzaz" Café) to modern Lebanese cuisine (La Tabkha), South American cuisine (Cactus, Joe Peñas, La Parilla, La Estancia...), French cuisine (Rouge, Paul, Centrale...), Japanese cuisine (Soto), Italian cuisine (Olio, Corleone) and Armenian cuisine (Mayrig). Almost 28% of the establishments in the neighborhood are restaurants that put good food ahead of alcohol. The 18 restaurants in Gemayzeh serve no fast food, whether it was American or Lebanese; this is probably due to limited visibility as well as limited parking spaces.

Obviously, there is no use for "drive-thru" restaurants in a neighborhood such as this.

The superior market segment is also absent, although there were some attempts such as "Le Gouraud Brasserie" that failed to attract high class clientele and had to be transformed into "55 lounge" by its owner and developer Sami Hochar a short while ago. Moreover, prominent restaurant chains are nowhere to be seen in the neighborhood. For example, the Premiere Leisure Group (Boubess Group) which owns a chain that includes many restaurants such as L'Entrecote and La Piazza did not open any of its establishments there.

Circle Management Group (Crystal, Metis...) has recently shown interest in Gemayzeh and is planning on opening a restaurant-bar very soon on the stairs leading to Surssock Street, across from Tony Haber's « Gem ».

As for Coffee houses and diners, they are also nowhere to be seen. There are no Starbucks or Roadster in the area, which shows that Gemayzeh, in spite of its young character and low prices, is unable to attract this kind of brands.

Therefore, it seems that the F&B market is limited to few mid-end restaurants.

There is strong competition, but in the end, it's a win-win situation, since Gemayzeh has become a tourists' destination in itself.

hodema publishes, on a regular basis, articles in Hospitality News and Le Commerce du Levant.

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Will the neighborhood's success last?

Gemayzeh is the number 1 tourists' destination in Beirut since 2000. However, will it be able to maintain its success? It has always been overshadowed by its neighbor Solidere, which has enjoyed a wide media coverage. However, slowly but surely, and long before the opposition camps set up in downtown Beirut in December 2006 paralyzed the Maarad Street, Gemayzeh started to take on Solidere, its total opposite from an urban point of view.

Located between the Surssock st. and the Port of Beirut, the neighborhood is made of 2 long streets, Gouraud and Pasteur. [...]

The neighborhood is named after a famous tree –today only one is remaining in the Gouraud st. Gemayzeh is known to have survived the Lebanese civil war between 1975 and 1990 and to have been ignored by contractors who were in charge of the reconstruction process afterwards. While the Surssock st. was being filled with high rise buildings and the Saifi Street became the street of arts and the residential area inside Solidere, Gemayzeh was left to its traders and craftsmen and was still under the old rent laws. These preserved and authentic aspects helped it achieve its success. Gemayzeh wanted to become Beirut's Lower East Side, an area crawling with galleries and designer shops, similar to the Marais neighborhood in Paris and the Soho Street in New York, which are both calm and detached zones in the middle of the hustling and bustling city.



However, it seems very quickly that except for modern art galleries and few boutique restaurants, the area attracted nothing but F & B developers and was transformed into a neighborhood crawling with restaurant-bars that becoming the residents' nightmare. The neighborhood also became a nightlife destination, thus forcing some establishments such as La Tabkha restaurant, which only received clients for lunch, to open at night as well, while people made use of daytime only to clean the establishments and receive merchandise.

Therefore, the bet to turn Gemayzeh into Beirut's Soho was lost, since the Gouraud st. became crawling with bustling Cafés. [...] Will this boom last? This is the first challenge Gemayzeh has to face, as the Monot Street has also known a similar boom that subsided with time. The same goes for the Maarad Street, which plummeted after the opposition camps, paralyzed the downtown area.

If the few parking lots that are left are closed, this will considerably slow down the area unless a miracle occurs to solve the problem. The Ministry of Tourism has suggested to use a part of the Charles Helou station as a parking lot and driving the customers to Gemayzeh in shuttles, but this will be hard to achieve, since most Lebanese like to boast their wheels in front of bars and restaurants. [...]

Unlike Monot which has been transformed into a residential neighborhood, Gemayzeh lacks available plots and was a residential area in the first place; this last issue constitutes the real impediment to its development.