

UAE's F&B sector needs a rethink on growth mix

Some of the ingredients that cooked up success in the past will not work

The UAE is known for doing the best, the tallest, the highest, etc in a lot of things and taking the spotlight in positive ways. Did you know UAE represents the highest number of F&B outlets, per capita, in the world?

The UAE has over 16,000 F&B outlets and is expected to increase to over 19,000 by 2020. Seems like a fact ... but is it good or bad remains to be evaluated.

Yes, the drop in sales in F&B in UAE is a reality in 2017 and continuing the challenges in the market since 2016. The same has been reiterated by the 2017 KPMG UAE report that says almost two-thirds of F&B operators in the UAE suffered a drop in sales this year amid challenging market conditions.

So is the market oversupplied? Our answer is a yes ... and a no. F&B and restaurants work on a catchment area phenomenon just like schools, hotels, malls, etc. A winning combination for an F&B venture is a good location, getting your price points right, business model (takeaway vs. dine-in, etc), the product, quality of food, the overall offering, and, lastly, the experience that the consumer will go through.

In a highly competitive market, you get a few of the above wrong and your whole venture crashes. Will the market see more closures? My answer is yes, for operators who get the above ingredient mix wrong.

What will VAT do to the F&B offering? KPMG forecasts "muted" growth in the sector for 2018, as consumers adjust to the introduction of value-added tax (VAT) from January, which will lead to rising costs and may impact consumer spending, the report said. We concur to the view.

Growth in F&B has a clear link to tourism growth, growth in local consumer spend (disposable incomes and population growth) and growth in businesses. As long as these things happen at the back of Expo 2020 and other government initiatives, we are in safe hands. We see UAE heading into a positive framework and direction.

Some F&B trends that we see emerging in 2018 will be:

- * Growth in takeaway deliveries will continue to rise.
- * Operators will take a minute look at per square feet efficiencies of their restaurant spaces as lease rates continue to rise. Efficiencies will become more relevant.
- * More and more landlords will start "taking" to operators and restaurants owners to addressing their needs including rent rationalisation.
- * More and more consumers will be looking for better deals.
- * Chefs and menus will become more and more innovative from a product point of view. Menus will become sleeker.
- * Food and presentation will become more Instagram-friendly.
- * Vegetarianism will continue to rise. Organic will remain trendy.

* Junk foods will remain ... and thrive.

* The food offering will have to combine a wholesome experience with entrainment options if one has to bring back the consumer back.

Our view of 2018 and 2019 is that the large operators will continue to expand, but quite cautiously, into new micro markets or into great locations that they may come across. The overall effort will be on in consolidating their current outlet sales, focus on marketing, and close down loss-making outlets in no time.

Smaller operators will again exercise slower growth and a cautious approach. Bottom-line will be looked at with a hawk's eye. In challenges lie opportunities is our belief.

—The writer is Director at Glasgow Consulting Group, a market entry and insights adviser.