

Food & Beverage Report

MENA | Hotels | Asset Management

September 2016



Hotel Restaurants

A Mindset for Maximising Profitability

Accelerating success.

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Report Overview

Relying on business from in-house guests may limit the potential of hotel restaurants to generate higher returns. However, with the right strategies in place, the food and beverage department can maximize the hotel's profitability.

As the standalone restaurant sector in the Middle East and North Africa becomes highly competitive, this will result in increased competition for hotel restaurants. With multiple opportunities available to an owner, from selecting a franchise, having a celebrity chef restaurant or leasing, it is important for hotel operators to be able to adapt their approach towards F&B to the constantly changing market conditions.

Considering the successful expansion of the standalone restaurant sector over the last five years, it may be beneficial for hotel operators and owners to adopt similar strategies. In this report, the characteristics of standalone restaurants are examined and compared to hotel restaurants, paying particular attention to differences in financial reporting and managerial responsibilities.

The report's findings indicate that hotel restaurants would gain significantly from being treated as individual business units. A shift in mindset that places greater autonomy on hotel restaurants is recommended for hotel owners and operators. Hotel operators should maintain separate profit and loss statements for each outlet to allow for greater financial visibility and accountability; and give restaurant managers a greater degree of independence to encourage a responsive attitude to changing customer demands and needs.

REPORT DEFINITIONS



Includes any full-service restaurant situated within a hotel serving both food and beverage



For the purpose of this report, a standalone restaurant refers to any full-service restaurant situated independently of a hotel. This includes restaurants located in retail destinations.



Introduction

RISING COMPETITION FROM STANDALONE RESTAURANTS

Standalone restaurants are becoming increasingly popular in the region, focusing on meeting the needs of the market with innovative branded concepts. Figures from Euromonitor reveal that the number of standalone restaurants is expected to grow at an average of 4% until 2020, while the number of hotel outlets is expected to grow at an average of 2% per year.

Further investment in large-scale retail and entertainment destinations will promote the development of standalone restaurants, adding pressure on hotel restaurants.

Unlike hotel restaurants - which capture in-house guests in addition to walk-in diners - standalone restaurants have to compete harder for market share. Furthermore, expenses such as utilities, rent and fees increase the cost of doing business for standalone restaurants. Despite the challenges, standalone restaurants continue to thrive and compete with hotel restaurants.

The following sections of the report assess the performance of hotel food & beverage (F&B) in the MENA region, and the factors that differentiate standalone restaurants from hotel restaurants. The focus of the report is on immediate solutions that may further the performance of hotel restaurants, and are relevant to both hotel owners and operators.

GROWTH IN STANDALONE RESTAURANTS - MENA



GROWTH IN HOTEL RESTAURANTS - MENA



Source: Euromonitor International, 2016





Food & Beverage

THE F&B DEPARTMENT- ANOTHER HOTEL AMENITY?

Data from a sample of 65 five-star hotels across the MENA region reveal that:

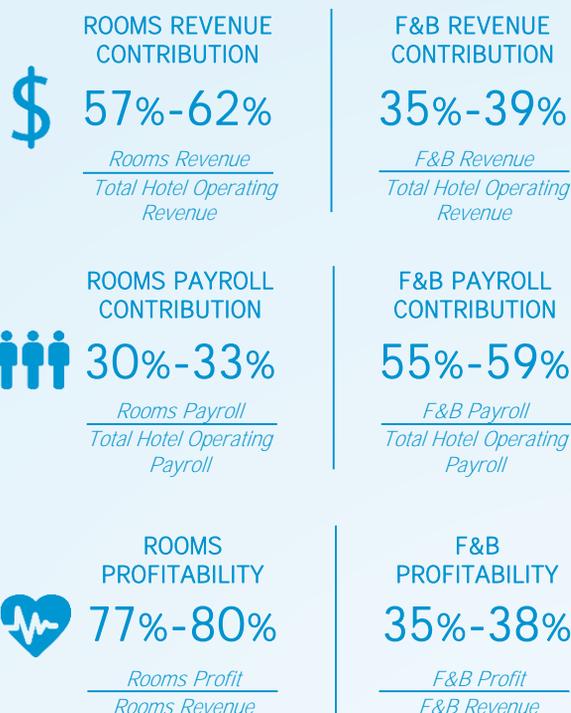
- Over half of a hotel's departmental payroll expenses originates from the F&B department, supporting the customary view of the department as less profitable than the rooms department.
- 5-star hotels with more than 10 outlets had the lowest F&B payroll contribution (49%) in the sample, suggesting they benefit from economies of scale. However, the F&B revenue contribution was not significantly higher as a result of the additional outlets.
- Variables such as the number of hotel rooms, number of F&B outlets or size of meeting space did not display any major impact on F&B profitability.

Results suggest that there is no correlation between the financial performance of the F&B department and the number of keys, the star rating or the number of outlets in a hotel.

Based on these key findings, it is not surprising that the food & beverage department is usually the first division of the hotel to be targeted when a property is underperforming, either through payroll cuts or closing down outlets.

Facts and Figures

KEY FINDINGS MENA 5* HOTELS AVERAGE



SAMPLE SIZE	37 city hotels and 28 resorts	
CHARACTERISTICS	Average	Range
Hotel Keys	307 keys	79 – 616 keys
No. of F&B Outlets	4 outlets	2 – 15 outlets
Total Meeting Space	1,960 m.	150 – 8,119 m.

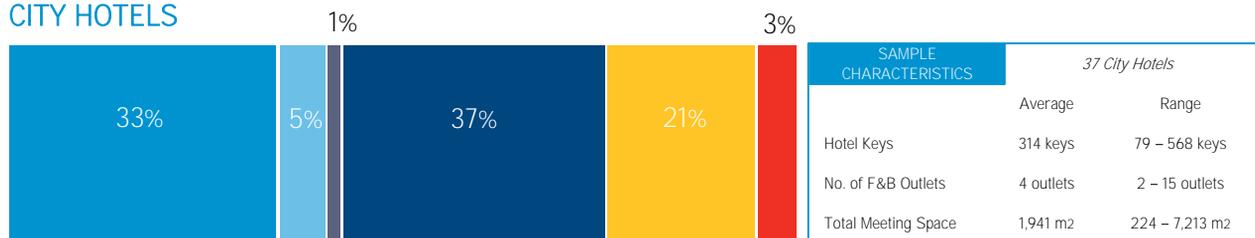
Source: Colliers International, 2016

A CLOSER LOOK AT THE FOOD & BEVERAGE DEPARTMENT

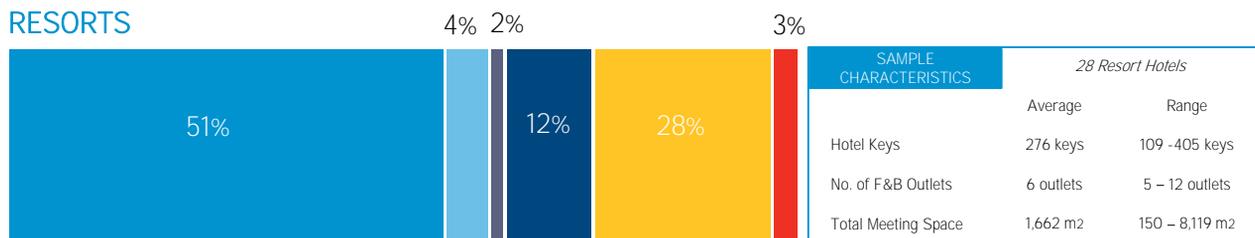
A large proportion of F&B revenues are generated from all-day dining outlets and room service, both of which are driven by hotel occupancy. This typically results in a high correlation between F&B covers and hotel occupancy, thereby indicating low visitation from walk-in diners. Relying on business derived through room bookings limits the revenue generating potential of hotel specialty restaurants, which may be viewed as unprofitable.

REVENUE CONTRIBUTION BY OUTLET (% OF TOTAL F&B REVENUE)

CITY HOTELS



RESORTS



LEGEND All Day Dining Room Service Minibar Banqueting Specialty Restaurants Others

Source: Colliers International, 2016

Note: "Other" includes Lobby Lounge, Pool Bar, Cafés, etc.

All Day Dining



In addition to hotel occupancy, breakfast revenue is also dependent on the allocation set from the room rate, which may be used as leverage to increase F&B revenues or inflate the hotel's average room rate. The all-day dining revenue contribution tends to be higher in resorts, typically due to the popularity of booking half-board or full-board packages.

Room Service



Room service accounts for an average of 4% of total F&B revenues and in many hotels, room service operates at a loss. The elimination of room service is becoming an increasing trend for hotel operators outside of the region, opting for grab-n-go concepts instead. However, this may not always be a viable option due to guest expectations, brand standards, star-rating classification requirements and / or regional preferences.

Banqueting



In hotels that offer banqueting and catering services, revenue contribution may be higher or lower depending on a property's location, size of facilities and guest segmentation. However, selling banqueting space applies a different business model to selling F&B covers. Guests may select banqueting facilities based on the quality and popularity of the hotel, rather than on the quality of a hotel's F&B offerings.

Specialty Restaurants



Unlike all-day dining outlets, room service and banqueting, specialty restaurants have the capacity to generate revenue independently of the property's performance and segmentation. Restaurant covers are driven by resident, tourist and in-house guest demand, yet the contribution of specialty restaurants in the sample represent only 21% - 28% of F&B revenues in the sample (an average of 7% per outlet).

What do standalone restaurants do differently?

When comparing standalone restaurants with hotel restaurants, financial reporting and managerial responsibilities appear to be handled with a different approach.

Human Capital – Core Competencies

COMPARISON OF RESTAURANT MANAGER JOB DESCRIPTIONS

KEY RESPONSIBILITIES

FINANCIAL ANALYSIS

- Cost Control
- Purchasing
- P&L Accountability

MARKETING

- Community Involvement
- Social Media
- Promotions and Events

HR AND TRAINING

- Recruitment
- Scheduling
- Identify Development Needs

GUEST SATISFACTION

- Customer Service
- Complaint Handling
- Guest Feedback

OPERATIONS

- Inventory Control
- Health & Safety
- Menu Planning

STANDALONE

HIGH



HIGH



HIGH



HIGH

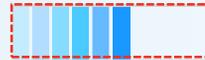


HIGH



HOTEL RESTAURANT

MEDIUM



LOW-MEDIUM



LOW-MEDIUM



HIGH



HIGH



CASE STUDY: MANAGERIAL RESPONSIBILITIES

Colliers has compared and analysed 16 job descriptions advertised online for restaurant manager positions in both standalone and hotel operations. The diagram represents the level of accountability found to be associated with each duty.

Source: Colliers International, 2016

Note: Bars represent the frequency of each responsibility stated in job descriptions

KEY FINDINGS

- Standalone restaurant managers responsibilities more frequently emphasise ensuring outlet profitability, while hotel restaurant managers' responsibilities tend to be more focused on daily tasks, such as timely purchase orders.
- Standalone restaurant managers are directly responsible for marketing, recruitment and training, whereas a restaurant manager in a hotel relies on the hotel's supporting departments to perform such tasks.
- In a hotel, administrative and sales & marketing activities are spread across various departments, from rooms to the spa. Consequently, the focus and attention restaurant operations require may be lacking.

F&B management relies on anticipating and responding to last minute consumer behavior. It also depends on local marketing and point of sale promotion with a focus on variable costs in response to short term demand.

On the other hand, rooms have a high fixed cost structure and expenses are more controlled as guests make advanced bookings. Therefore, when recruiting for a hotel restaurant, it is crucial to hire personnel with core competencies that are relevant to F&B operations

Responsibilities should be expanded to include direct involvement and control over financial, marketing and HR related activities. Greater empowerment for hotel restaurant managers would allow for swifter decision making and quicker responses to dynamic market conditions.

Financial Reporting

An analysis of hotel and standalone restaurants financial reporting statements reveal common practices followed by hotel operators:

KEY FINDINGS:

- Frequently, hotel operators and owner-operated hotels maintain one profit and loss statement for the F&B department as a whole, rather than reporting each outlets associated revenues and expenses in separate outlet P&L statements.
 - On the other hand, standalone restaurants maintain full P&L statements that incorporate all of their associated costs, including undistributed expenses, rent and fees.
- *Maintaining P&L statements for each outlet is an important tool for management to assess a restaurant's profitability and encourages hotel operators to view each outlet as a separate business unit. Additionally, it increases accountability of the restaurant team towards their outlet's financial performance.*

COMPARISON OF P&L STATEMENTS

STANDALONE	HOTEL OUTLET
Revenue	Revenue
Cost of Sales	Cost of Sales
Gross Profit	Gross Profit
Payroll & Benefits	Payroll & Benefits
Other Expenses	Other Expenses
Departmental Profit	Departmental Profit
Undistributed Expenses	Standalone restaurants maintain full P&L statements that incorporate all of their associated costs, whereas hotel outlet P&L's report only until Departmental Profit.
Gross Operating Profit	
Rent	
Fees	
Net Income	

Source: Colliers International, 2016

UNDISTRIBUTED EXPENSES	Includes all Administration & General, Information Technology, Sales & Marketing, Property Operations & Maintenance and Utility expenses
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CASE STUDY: ALLOCATING EXPENSES

Colliers has compared the P&L statements of two restaurants of a similar concept in Dubai, UAE – one located in a hotel and the other a standalone restaurant. Allocating expenses to the hotel outlet reveals that the outlet, previously thought to be profitable, does not generate enough revenue to cover its expenses if it were to operate as a standalone unit.

METHODOLOGY

- Allocate all undistributed expenses to the F&B outlet by either using:
 - The outlet headcount to total hotel headcount ratio or;
 - The weighted average of the outlet revenue contribution and the payroll contribution or;
 - A combination of both techniques
- As an industry standard, rent may be charged to a hotel outlet using an assumption of 12% of revenue

Profit and Loss Statement	Standalone	Hotel
Revenues		
Food	78%	62%
Beverage	13%	32%
Others	9%	6%
Total Revenue	100%	100%
Cost of Sales		
Food Cost	35%	31%
Beverage Cost	20%	25%
Total Cost of Sales	30%	27%
Gross Profit	70%	73%
Departmental Expenses		
Total Payroll & Benefits	21%	35%
Total Other Expenses	13%	15%
Departmental Profit	36%	23%
Undistributed Expenses		
Total Overheads	8%	21%
Gross Operating Profit	27%	2%
Fixed Costs		
Total Fees	10%	5%
Rent	12%	12%
Net Income (Loss)	5%	-15%

Source: Colliers International, 2016

Note: Percentages of total revenue have been displayed to maintain confidentiality of the restaurants used in the case study



BREAK EVEN ANALYSIS

Determining your break-even point is an important step to profitability. The breakeven point can be calculated at any stage of a restaurant's life cycle:

- Development Phase – Project the expected level of performance to determine the optimum capacity and size of the restaurant.
- Pre-Opening Phase – To assist with budget preparations and staffing.
- Operational Phase – To allow management to effectively assess the profitability of the outlet and control costs.

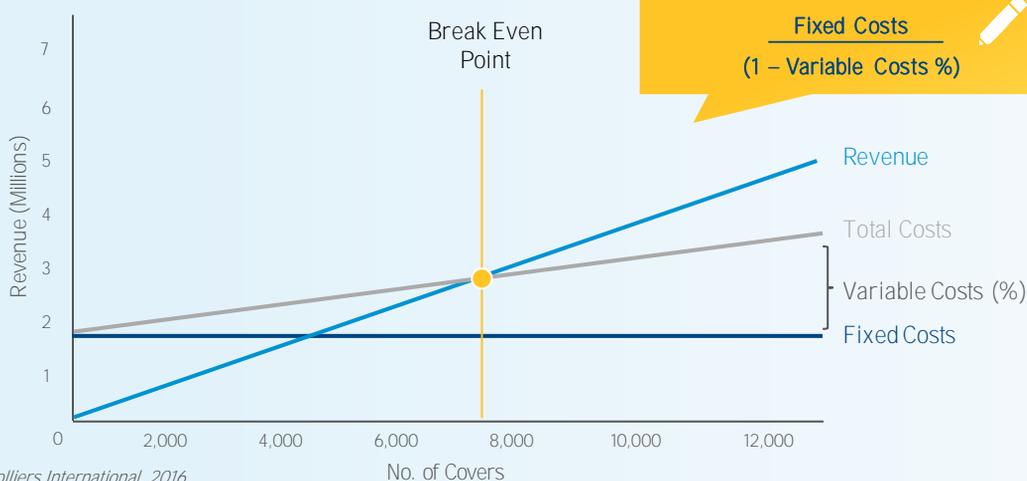
 <p>FIXED COSTS</p>	<p>Expenses that are not dependent on the level of goods or services produced by the business, for example, payroll expenses.</p>
 <p>VARIABLE COSTS</p>	<p>Expenses that change in proportion to the goods or services that the business produces, for example, cost of goods sold.</p>

METHODOLOGY

- Allocate all undistributed expenses, fees and rent to the F&B outlet as mentioned in the previous page.
- Categorize all associated costs into two groups - variable costs and fixed costs.
- Utilities may be assumed to comprise of 30% variable costs and 70% fixed costs, or instead, hotels can install meters for each outlet.
- Use the breakeven formula to calculate the outlet's break-even point.

Conducting a breakeven analysis is essential to understand the threshold upon which a hotel F&B outlet can make a profit and be considered sustainable a standalone unit.

BREAK EVEN POINT



Source: Colliers International, 2016

Development Considerations

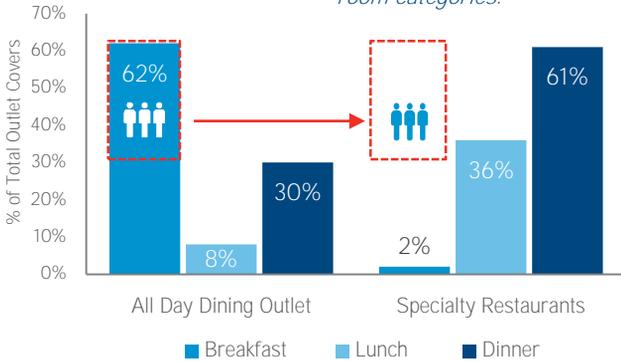
MAXIMISE YOUR SPACE

Specialty restaurants are popular during lunch and dinner service, as opposed to the all day dining which is often seen as the prime breakfast location, with the exception of some successful theme nights or brunches. Therefore, the seating capacity of the all day dining is underutilised for lunch and dinner.

OUTLET COVERS BY MEAL PERIOD (% OF TOTAL OUTLET COVERS)

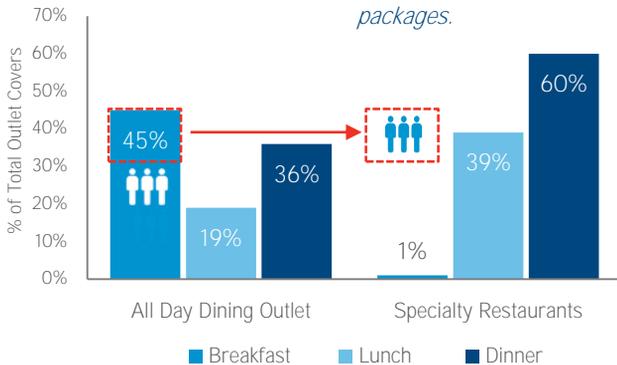
CITY HOTELS

Breakfast may be served in the specialty restaurant, as an additional benefit for guests that book higher room categories.



RESORTS

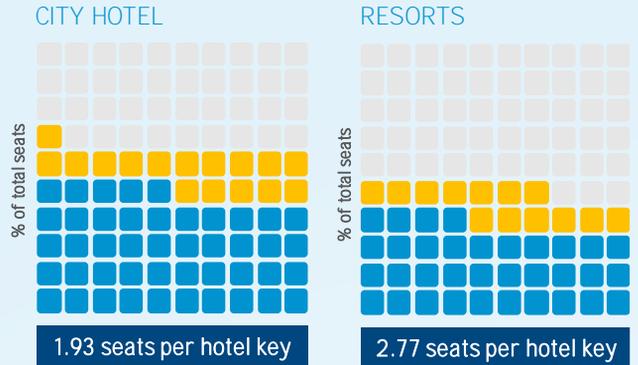
The variance observed in resorts is less than in city hotels due to the popularity of half-board and full-board packages.



Source: Colliers International, 2016

Instead, this vital space could be used to generate alternative revenue streams for the property. For example, by creating retail areas, adding extra meeting rooms or even introducing different F&B concepts.

SEATING CAPACITY



LEGEND ■ All Day Dining ■ Specialty Restaurant ■ Others

Source: Colliers International, 2016

Note: "Other" includes Lobby Lounge, Pool Bar, Cafés, etc.

Note: Represents the seating capacity of one specialty restaurant

The seating capacity of hotel F&B outlets should correspond to the outlets' expected demand during each meal period, while still complying with operational and legislation requirements.

CONDUCT MARKET RESEARCH

A restaurant size and capacity is a design decision that is taken at the time the hotel operation is being visualized.

Factors that should be taken into consideration include:

- Target customer profiles
- Guest segmentation
- Location
- Market trends and seasonality
- Optimal opening hours
- Municipal requirements
- Brand standards
- Concept and design



Conclusion

A MINDSET FOR MAXIMISING PROFITABILITY



Added Value



- In-depth market knowledge



- Extensive market & financial benchmarking database



- Proven track record for delivering enhanced profitability for clients



- Extensive Asset Management Track Record (in excess of 12,753 keys)



- Perform local and global best practices



- Expert team in hotel operation, finance & real estate

OUR TEAM can advise throughout the key phases and lifecycle of a hotel asset.

Our asset and project management divisions offer three main service lines:

- Technical & Pre-Opening Services
- Operational and Financial Reviews and Acquisition / Disposal Due Diligence
- Ongoing Asset Management / Owner Representation

Colliers International Hotels

Colliers International Hotels division is a global network of specialist consultants in hotel, resort, marina, golf, leisure and spa sectors, dedicated to providing strategic advisory services to owners, developers and government institutions to extract best values from projects and assets. The foundation of our service is the hands-on experience of our team combined with the intelligence and resources of global practice. Through effective management of the hospitality process, Colliers delivers tangible financial benefits to clients. With offices in Dubai, Abu Dhabi, Jeddah, Riyadh and Cairo, Colliers International Hotels combines global expertise with local market knowledge.

SERVICES AT A GLANCE

The team can advise throughout the key phases and lifecycle of projects

- Destination / Tourism / Resort / Brand Strategy
- Market and Financial Feasibility Study
- Development Consultancy & Highest and Best Use Analysis
- Operator Search, Selection and Contract Negotiation
- Pre-Opening Budget Analysis and Operational Business Plan
- Owner Representative / Asset Management / Lenders Asset Monitoring
- Site and Asset Investment Sale and Acquisition/Due Diligence
- RICS Valuations for Finance Purposes and IPOs

Our hotels team in the MENA region:

\$9

billion
investment value of
projects advised

39,200

keys
valued

8,880

Hotel keys
under asset management

554 offices in 66 countries on 6 continents

United States: 153

Canada: 34

Latin America: 24

Asia Pacific: 231

EMEA: 112

\$2.5

billion in
annual revenue

2.0

billion square feet
under management

16,000

professionals
and staff

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Colliers International, 2016

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