

Hospitalitynews

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THE ART OF COFFEE

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KSA: Boosting tourism
to diversify the economy

Festive products
for the season

Trends
in packaging



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KSA: BOOSTING TOURISM TO DIVERSIFY THE ECONOMY



With a growth rate of 3.6 percent in 2014, Saudi Arabia continues its long efforts to shift from dependency on oil exports to a diversified economy. In order to achieve this, real estate and infrastructure are on the rise. Mega projects include the creation of brand new economic cities, fast-track development of the Red Sea Coast and large scale public transportation schemes. **Toufic Akl**, partner handling operations at Hodema breaks down the numbers

TOURISM GROWTH

On the institutional side of the coin, new socio-economic laws accompany the fast development and gradually reshape Saudi society. The introduction of a legal minimum wage in 2013 has increased the general level of income and purchasing power. Shopping is the main entertainment activity of the country so consequently this rise in purchasing power is expected to translate into increased spending on leisure and F&B.

For a number of years now, the country has recorded a steady increase in demand for all hospitality related sectors. This trend represents a wide spectrum of opportunities

for both local and foreign investors.

Saudi Arabia's tourism sector is expected to boom in the next five years. The current USD 15 billion tourism revenue is forecasted to reach USD 65 billion in 2020 creating over 2.3 million jobs.

Riyadh and Jeddah are prime destinations for business travel while Mecca and Medina attract more than 3 million religious pilgrims every year for the Hajj and Umrah seasons.

The Kingdom however wants to diversify and for that purpose has its eyes set on the Red Sea. Tourism mega projects on

the Red Sea Coast imply no less than half a million rooms spread over 1,800 km of coast. This massive project is expected to start launching at the end of 2015.

This spectacular growth however, also comes with challenges for Saudi Arabia. Human resources is an issue in both F&B and hotels sectors, especially with the Nitaqat or Saudization law initiated by the Ministry of Labour, which limits the possibility of issuing work visas to foreigners.

MOST PREEMINENT MEGA CITIES UNDER CONSTRUCTION IN KSA

City	Location	Focus	Expected investment (USD billion)	Expected job creation
King Abdullah Economic City	Rabigh	Port and logistics, light industry and services	27	1 million
Prince Abdulaziz Bin Musaid Economic City	Hail	Logistics, agribusiness, minerals and construction material	8	55,000
Knowledge Economic City	Medina	Knowledge based industries and services with an Islamic focus	7	20,000
Jazan Economic City	Jazan	Energy and labor intensive industries	27	500,000

UPCOMING TRANSPORTATION SCHEMES IN KSA

Project	Location	Description	Expected investment (USD billion)	Launching date
The Riyadh Metro	Riyadh	6 lines of fast public transport	10	2017
High speed Haramain Railway	Jeddah – Medina - Mecca	35 trains, 5 stations	10	2015
King Abdulaziz National Airport	Jeddah	Capacity to host 80 million travellers	N/A	2015

HOTEL DEVELOPMENT

Major hotel brands developing in KSA	Number of properties	Number of rooms
Hilton Worldwide	15	6,554
Millennium & Copthorne Hotels	5	2,872
IHG	7	2,735
Marriott International	6	2,144
Starwood Hotels & Resorts	5	2,028
Accor	8	1,607
Best Western	3	1,405
Carlson Rezidor Hotel Group	6	1,168
The Rezidor Hotel Group	4	882

The hotel industry is growing very fast in the kingdom: 75 new hotels are planned to open in the next two years adding around 24,750 rooms to the current supply. The strongest development will be in the holy city of Mecca with some brands planning properties with over 1,200 rooms such as the Holiday Inn and Best Western. In total, Mecca will be home to 14 new properties expected to open by end 2016 with a total of 10,735 rooms, followed by Riyadh with 27 new properties, adding 6,181 rooms.



A BOULEVARD FOR AMERICAN FRANCHISES

The population of the kingdom is relatively young with 45 percent of the 30 million Saudis aged between 25 and 54 years old. Many of them travel to the United States for business or education and so are exposed to American F&B culture. As a consequence, franchised hospitality (both hotels and restaurants) brands in KSA are very popular. Based on Hodema's field research in the main F&B areas of Riyadh, Jeddah, Khobar and Dammam, 27 percent of the franchises come from the United States but need to adapt their offer to match the local rules and regulations such as halal meat and division of seating space between singles and families.

F&B: A MARKET DRIVEN BY QUICK SERVICE

Saudi Arabia's food sector is witnessing a racing annual growth of 18.5 percent. The market is dominated and driven by low-end establishments. The total F&B offer is still dominated by quick service restaurants

representing over 55 percent of the total restaurants' supply followed by the casual segment representing 28 percent.

In the dynamic hubs of Riyadh, Jeddah and Khobar, local F&B brands represent 60 percent of the restaurants. They are directly followed by American brands with 27 percent of market shares so far. Within that general framework, one can distinguish some significant trends:

- Digital critiques

Not unlike other parts of the world, internet and smartphone applications are becoming an absolute must in the Saudi dining scene. Food directory websites are on the rise and a growing number of customers tend to choose their dining out experience based on online reviews and recommendations.

- Coffee shops

Coffee shops are increasingly trendy because contrary to restaurants where you eat and leave, they represent gathering or working places and are especially popular among women, students and younger generations as a hang-out place. Regional

and international coffee shop brands are developing fast in the kingdom including Starbucks, Caffe Benne or Wayne's Coffee.

- Clusters

While shopping malls continue to be the most popular hang out in Saudi Arabia, F&B clusters are also increasingly successful social venues. Lebanese group AZADEA is expected to soon open several of its F&B brands in a cluster in Khobar. This cluster will feature franchises like Paul, The Butcher Shop and Kosebasi.

Notwithstanding the importance of the fast food industry, it must be mentioned that Saudi customers are becoming more aware of health and wellness. Fast food outlets still dominate the market but casual dining is gradually winning hearts.