

## ANALYSIS

### Can Lebanon still be an opportunity?



The impact of the war on the hotel, tourism and leisure industry by Karim El Asmar

The war on Lebanon, which started on July 12th 2006 and lasted for over a month, resulted in far more than just material infrastructure damages.

The 2006 summer season was estimated to generate around US\$ 4 billion in the hospitality and leisure industry. Professionals in the industry were echoing that this summer would beat previous records of 2004.

Whether in hotel room occupancy, or restaurant and resorts, activity was expected to increase by a double digit figure in comparison to 2004. The monetary and economic stability, despite the assassination of former prime minister Rafic Hariri boosted confidence in the country. It regained a certain stability with regards to security, and the initiation of the national dialogue between the political leaders, motivated analysts to improve the country profile.

#### The hospitality industry

The immediate impact of the war has been disastrous: cancellations of hotel bookings and outlets faced with sudden inactivity.

Some Beirut hotels and outlets maintained a level of activity with the arrival of international correspondents and reporters, while others had to close for insufficient activity. Hotels located in the northern part of the country however were literally assaulted by the population fleeing from Beirut and the southern part of the country.

The Monroe Group closed the Monroe Hotel in Ain El Mreisseh, and concentrated its activity on Markazia and Printania Hotels; Al Habtoor hotels entered into a crisis management program freezing all their activity in the country; InterContinental Mzaar achieved 100% occupancy three weeks ahead of the peak summer period. A few Beirut outlets relocated to the mountains: Asia, Mayrig and Taboc opened in Broumana, while Element and Cactus opened in Mzaar and Faqra.

Paradoxically, outlets located on Goureaud Street in Gemayze, maintained a good level of activity, quickly becoming perks for reporters and Beirut inhabitants who had decided to remain in the city.

#### What were the challenges facing the F&B, leisure and hospitality industries?

During the first days of the war, population relocating north of Beirut rushed to all supply stores, gathering basic-need goods. An increased rush on bakery products increased the pressure on the outlets. Unofficially, some owners commented that their turnover for July was up by 20% to 30% in comparison to the previous year. On several occasions, the syndicate of bakers and millers made public announcements stating that flour was available, in an attempt to reduce pressure on the outlets.

As the war waged on, outlets were faced with the challenge of managing the perishable items on their menu. To this effect, the Balthus and the Market restaurants in Beirut reviewed their menus and maintained items that had products with market availability or long preservation capacity.

Paradoxically, the sudden freeze of activity in the hospitality, food and beverage and leisure industry increased the pressure on

suppliers, especially with regards to perishable goods. As a result supermarkets and retail stores were proposing promotions on luxury and imported food items.

Operators were also faced with the challenges of gas and fuel shortages, necessary for supply in raw materials and power plants operation and deliveries.

The InterContinental Mzaar for instance operated under a strict energy management program, which they communicated to their customers.

Another major challenge for operators during this period was in human resources management. Some hotels lodged employees on premises. Other operations entering into a crisis management program and had to initiate a staff recuperation and vacation program.

Another challenge was the relocation of employees to other countries in the region as well as Europe, Canada, US and Australia. It is expected that this will have a lasting effect.



Al Habtoor City

#### The post war perspective, are there still ventures?

In the post 1701 UN resolution, and the cessation of hostilities, expert opinion is divided on the economic outcome for the country. Obviously the economy and hospitality industry will remain heavily marked by the physical and moral impacts of the war. However, a rapid recuperation is possible if there is a stable solution to the conflict.

The reconstruction efforts and the extension of development aid to the country may give Lebanon a new economic boom.

In the hospitality industry, we may observe a shift in the segment of travelers, with an increasing number of diplomatic and corporate segments as opposed to the previous leisure segmentations.

With regards to the F&B and leisure activity it is expected that a number of outlets will have to seek new financing, new markets or else close. The lack of track performance for some outlets and operators will strengthen the position of seasoned operators in front of financiers.

The beach resorts and leisure markets will be significantly affected by the ecological downfalls of the war. Heavy works for the rehabilitation of the beaches will be required and international support is necessary and heavy campaigning will be necessary to adjust travelers' perception.

Finally, a recent announcement by a large developer DAMAC, on maintaining the course of their projects and development schedules in Lebanon, gives hope. Such developers faith, and the deposits made by Gulf states in the Lebanese Central Bank, helps reinforce the belief that the economy has a strong potential for recuperation, provided the coun-

try stabilizes politically.

#### What's next?

The Lebanese operators have shown a strong resilience throughout the civil war and this is now an essential quality to overcome the current economic upheaval. With the availability of franchise concepts, and the expatriation of experienced human resources, local brands with a powerful identity can seek regional expansion.

For the hotel market, a rapid political stabilization could induce a business boom since regional investors have remained committed to the country. The corporate segment could become the main business for most hotels as well as Lebanese expatriates coming on short to mid stays.

In conclusion, since 1996, a lot of effort has been invested into promoting Lebanon as a tourism destination and by 2006 a Lebanese tourism market was identified in the Gulf and a market was developing in Europe. Now there is an urgent need to create a powerful promotion campaign with the support of the Ministry of Tourism and professional associations, such as the Chamber of Commerce and Industry, in order to reboot Lebanon as a tourist destination.

#### Recovery plan unveiled

Tourism Minister Joe Sarkis unveiled a recovery plan for the tourism industry, "We have issued a program for the recovery and rehabilitation of tourism in Lebanon based, hopefully, on stability in the security aspect. Direct and indirect losses are estimated at one billion dollars."

Under the recovery plan, tourism operators are being asked to fill in forms to give officials a more detailed assessment of the losses. Tax breaks and discussions with financial institutions are also being talked over "in order for the institutions to remain working during this difficult period," he said.

As some hotels have begun laying off staff, the recovery plan also calls for a fund to help tourism operators pay workers' salaries. "We are afraid that if we do not succeed in paying their salaries, these workers will leave and go elsewhere in Arab countries where they will find jobs," he said. The ministry is opening an account with the Lebanese central bank to receive donations. "Lebanon by itself will not be able" to cope, he said.

Sarkis added that the tourism ministry also plans to cooperate with the environment ministry over recovery from a massive oil spill that officials say has polluted about 150 kilometers (93 miles) of the Lebanese coast and spread north into Syrian waters. "Fifty to sixty percent of tourism activity is based on the sea," he explained. The spill occurred when Israel bombed a power plant south of Beirut.

The ministry also wants to launch a campaign to lure back Arab tourists. "It is not easy," Sarkis said. "We want to be sure before we invite these people, that they will be safe in Lebanon."



JOE SARKIS

#### Impacts on operating budgets

Due to the war, operators will have to review their budgets and forecasts for the fourth quarter as well as next year:

- The blockade on Lebanon has had an immediate impact on the availability of supplies on the market. It is expected that it will also have a long term effect. Distributors had to cancel their orders, resell or redirect their shipments to other ports. This may cause a delay in the availability of products, as well as put pressure on the distributors' margins. There may be an increase in prices, as distributors will have to transmit their increase in costs to a lower volume of activity. This will affect the cost of goods sold, as well as the overall cost of purchase.

- Regarding energy costs, it can be expected that the increase of the price of petrol will remain permanent, and thus impact energy costs and delivery costs.

- Human resources caption will be affected with recruitment costs, for properties requiring expatriate labor and training costs, given that a good number of skilled labors has migrated.

- The financial costs caption will be adjusted as operation may seek additional credit facilities.

- Insurances premiums may increase to reflect the cascading costs.



MARKAZIA MONROE HOTEL

