

hodemahighlights



In the aftermath of the financial crisis, the travel industry has been negatively impacted. Corporations are reducing travel costs and cutting back on lodging expenditure. Consumers are rethinking planned vacations and focusing on conserving cash. There is a general climate of cost cutting paralleled with an ongoing search for cost-effective alternatives.

These current trends all point towards an increasing interest in the budget hotel sector, currently witnessing pent-up demand from both individual travelers as well as corporate clients alike.

Is there a future for budget hotels in the Middle East?

Excerpts from this article were published in "Hospitality News" - N° 63, April/May 2009 by Karim el Asmar from *hodema*

While deluxe and first class hotels have sufficient facilities to accommodate the business traveler's needs, prices and image association will tend to drive travelers towards alternative solutions. With regards to price, properties will review their pricing strategy, with a risk of a pricing war. In front of a shrinking market, survival strategies can make rate cuts an easy temptation. On the other hand, rather than entering a price war, properties should push towards offering more value. Luxury hospitality will be confronted with another challenge linked to the ambient climate of austerity. It simply doesn't look good to travel luxury amidst the crisis.

These socio-economic trends are creating an ideal environment for the development of budget hotels. While the idea is not new in the region, the current context is expected to favor the development of budget hospitality. Courtyard, Marriott, Holiday Inn Express and Ibis represent international budget hotel brands; however, much still remains to be done in the region.

In the last five years, operators such as InterContinental, Marriott and Sheraton have been pushing their budget brands by announcing aggressive development targets. Likewise the brand Easy hotels announced bold targets; contracts were secured with local partners but few properties were developed with the hype around the luxury hospitality sector still prevailing.

With the crisis dominating budgets, hospitality is under the limelight more than ever. Chain brands will tend to be more aggressive as operators further pressure their partners to develop properties in response to market demand. Operators may even turn out to be lenient and accept properties conversions to rapidly increase their portfolio.

Property owners, identifying the opportunities in budget hospitality, will naturally approach operators. The obvious advantage in such brand development is the reservation system. Indeed, a powerful CRS provides a guarantee to owners on filling their properties. In the current market conditions this is not a luxury. For instance, Holidex, the IHG reservation system, is reputed to have an impact of nearly 20% in increased booking on any property integrated to the network. In the Middle East, budget hospitality is suffering from low standards and absence of distribution solution. Under pressure from demand, it is expected that developers will acquire and convert existing properties with the objective of flagging them. Operators, will increasingly also develop budget brands to cater to the market. To that effect, Rotana, which has been intensively developing in the region, announced a partnership with Orascom and SHUAA to

develop budget hotels in Egypt. Furthermore, Rotana has already announced 5 openings for their budget brand Centro for 2010.

While such off-the-shelf brands are developing and have potential, their standardized approach will not suit all clients. Recent hospitality trends have shown that clients search for charm and personalization. The traditional approach to budget hospitality has been to reduce the level of services within the property and focus on the lodging part of the activity. Typically rooms were small, 15 to 20 m², and designed for short-stay. The design focused on the functionality of the room rather than on esthetics. Subsequently, the budget hospitality market was becoming a near commodity market, with an increase in number of brands and a no differentiation in terms of services. Managers relied on the reservation system as the main strength of the property.

As budget hotels develop the challenge is not in gaining momentum but in keeping the gained customers when the economy kick starts again. It is relatively easy to attract customers to a lower cost offer in times of crisis, but it is harder to convince them that budget hospitality is a long term solution.

The lifestyle trend in hospitality in the last decade has shown that the customers have become more sophisticated and demand more than just a standard functional product when choosing their hotel. As a result, budget properties will need to develop their infrastructure and include a standard wi-fi connection, provide free Internet and in some cases, add a little to their room amenities. Guests in a budget hotel suffer from the lack of facilities, so providing information on alternative facilities could save the day. An emerging trend, championed by the Null Stern Hotel concept, developed by two Swiss artists and twin brothers, is the conviviality. As Frank and Patrik Rilkin put it, "the Null Stern Hotel is the antithesis of the luxury and megalomania of this time." This concept started as an experiment that was featured on CNN business traveler. The concept is currently being transformed into a worldwide venture opportunity under the newly born "Zero Star Hotel" brand. Zero Star Hotel finds its roots and values at the core of today's world economic, ecological and social environments. It offers a second life to prime real estate locations by transforming them into profitable, sustainable and community-oriented business opportunities.

In the region independent budget properties often lack international standards. Nevertheless, international tour operators will get an increased interest in small independent properties, which in turn will force owners to improve their standards due to

the shift in customer profile. Challenges in the region will be in developing budget hotels and upgrading existing budget independent properties that are not up to standard.

Update on budget hotels in KSA

The hospitality market in KSA is predominantly dominated by unbranded, independent local operators and proprietors, catering mainly to the extended stay segment.

The primary customers for international chains have traditionally been the business travelers. In the past and as a result of the Western travelers' lack of familiarity with the local culture, there was a need for these chains to provide additional services such as business centers, fitness clubs and other related amenities.

With the advent and growing developments of shopping malls, independent business centers, and a growing selection of food and beverage offerings, travelers today require fewer services from within the confines of their hotels as they are more inclined to explore the surrounding environment. This shift in trend provides ample opportunities for the development of branded international budget hotels.

Intercontinental Hotels Group (IHG) with Holiday Inn brand and Accor with Novotel and Mercure are the major international players in the Saudi budget hotel segment, with both groups opening new properties recently.

The Holiday Inn franchise recently opened a property on Al Khobar Corniche. The renovation of Holiday Inn Al Khobar was also recently completed in line with the group's international brand strategy and its objective of upgrading the product offering and enhancing brand perception in Saudi Arabia.

In parallel, Mercure and Novotel have also opened two locations in Riyadh and Khamis Mushait.

Other than the announced development of several IHG Holiday Inn Express in KSA, the market has yet to witness any new developments of two and three stars budget hotels. International brands such as Wyndham remains underrepresented with only Ramada brand featured in KSA.

Saudi Arabia's hospitality sector which continues to enjoy healthy growths from the business and religious travelers, offers further opportunities for the development of international as well as Saudi born budget hotels.



Photograph by Fahad Ayyad

Interview with Dr. Ghassan Al Sulaiman

Chairman of Siraj Capital

What I particularly appreciate from *hodema* at a team level, is that they take strong ownership of every project they undertake and practice a “hands-on” approach

1 • Which projects are you currently working on with *hodema* in KSA?

hodema and Siraj Capital/Ghassandevco are collaborating on various ventures in Saudi Arabia, all relating to hospitality. Some of these projects include the franchising of innovative Food & Beverage (F&B) brands in Jeddah, the implementation of a mixed F&B street-level cluster in the new Bin Sulaiman Business Center (currently under construction and nearing completion). This new cluster is comprised of 4 restaurants that include Lebanese, Italian and Saudi cuisine.

We also mandated *hodema* to undertake the feasibility and development of a hospitality destination cluster within the old historic section of Jeddah, part of the Jeddah City Center redevelopment and regeneration project.

2 • What are your motives behind developing hospitality projects in Saudi Arabia?

Saudi Arabia is a large country with a growing and demographically appealing population. The hospitality industry has for the most part been much underdeveloped in Saudi Arabia. There are tremendous opportunities with huge potential in the leisure, religious tourism and F&B areas. Similarly, business travel to the Kingdom is on the rise which in turn is also fueling a growing demand for quality hospitality and related services. Together with *hodema*, we plan to identify new opportunities in untapped segments in order to maximize development potential and investment returns.

3 • In your opinion, what is the added value in introducing Lebanese F&B brands into the Saudi market?

There are lots of advantages to introducing Lebanese

brands into the Kingdom, especially if these brands have proven to be commercially and operationally successful in Lebanon, in an environment filled with extensive competition and other adversities. These successful operations tend to have their product name well established with their concepts easily adaptable to malls or stand-alone outlets. We have also selected brands that cater to a large market segment including families as well as singles. Moreover, I believe that the franchising and development of Lebanese brands in KSA provides critical risk mitigation factors to investors through the provision of efficient strategic support and continuous guidance from experienced operators.

4 • What do you think about today’s Saudi F&B and hospitality market? Are the perspectives promising?

The hospitality and F&B market in KSA has witnessed increased growth and attention, however and in spite of a few success stories, it is still considered at a nascent stage in its development with very promising opportunities. The F&B sector acts as one of the main entertainment activities in the Kingdom. With a population growth averaging 3% a year, the opportunities are numerous and are supported by increasing individual consumption and spending rates. The Saudi government has embarked on large economic reforms to diversify its oil based economy; this diversification policy targets, among other sectors, the hospitality and tourism markets, which explains the recent growing number of projects in that field. This growth is supported by various elements such as the political climate in Saudi Arabia which offers a sustainable and stable environment, a young population that is consumption driven with high purchasing power, and a continuous growth in religious tourism.

5 • Do you think that the necessary know-how in hospitality market is available locally?

The workforce in the hospitality sector in KSA is still developing and the F&B market remains highly dependant on foreign labor, despite the ‘Saudiization’ policy promoted by the Saudi government. In addition, the foreign workforce is largely comprised of low-skilled expatriates. The real challenge today is to develop, train and recruit a professional and well-established F&B Saudi workforce. We have started looking at the possibility of establishing professional hospitality training academies and institutions and we plan to leverage *hodema*’s extensive experience and track record in this field.

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

hodema certainly has an important added value in the hospitality field as well as in the real estate and retail sectors in KSA. Not only do they understand the Kingdom’s market, but they also provide their clients with great know-how, expertise, and on-going support. Unlike other specialized consulting companies, *hodema*’s team is based in the Kingdom and is on the ground. What I particularly appreciate from *hodema* at a team level, is that they take strong ownership of every project they undertake and practice a “hands-on” approach to managing their projects.

7 • Do you have other plans in the hospitality and F&B sectors?

I believe there are a several untapped niche markets in KSA, mainly in the middle and high end segments – for me, these are very exciting opportunities that I am looking at. I hope that with the collaboration and the know-how of *hodema*, we will be able to pursue investments in these sectors as well as play an active role in the transformation of the Kingdom’s hospitality sector in the years to come.

Chairman of Siraj Capital, Dr. Ghassan Ahmed Abdullah Al-Sulaiman is the former Chairman of the Jeddah Chamber of Commerce and Industry, the Jeddah Marketing Board, and the National US-Arab Chamber of Commerce. He chairs numerous organizations in KSA and Gulf Region, and is currently the Chairman of Venture Capital Bank, a Bahrain based investment bank and several private sector entities. He also serves on the Boards of Directors of Savola Company, Arabia Cement Company, Bin Sulaiman Holding Company and others. He is a member -among other organizations- of the Davos Economic Forum Founding Board, the Private University of the Makkah Region, and the Saudi Organization for the Handicapped, and the Saudi Arabian Human Resource Fund.

Dr. Al-Sulaiman has built a successful track record developing large business enterprises such as the Ghassan Ahmed Al Sulaiman Furniture Co. Ltd. (‘IKEA Saudi Arabia’).

Dr. Al Sulaiman is the Chairman of the City Center Development Company (CCDC), a newly formed consortium behind the major regeneration project to transform the historic heart of Jeddah. The multi-million dollar restoration project aims to put Jeddah’s historic center on the world tourism map and breathe new life into the area. With updated infrastructure, amenities and public spaces, the project will improve the quality of life for the entire community of the city and expand Jeddah’s role as a major hub of domestic and international economic activity, while retaining the rich heritage of the site. Dr. Al Sulaiman obtained a Masters in Business Administration from the University of San Francisco, California and a Doctorate in Business Administration from Hull University, UK. He is a guest lecturer in Strategic Management at The Maastricht School of Management’s MBA program.

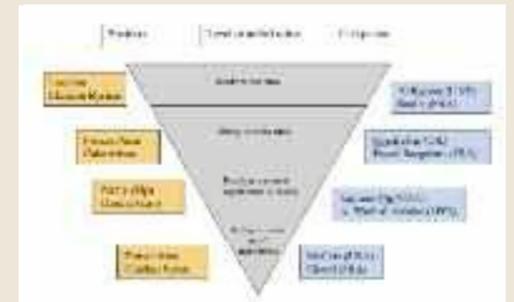
Development of a Food Processing Company

Saudi Arabia

hodema was mandated to prepare a feasibility concept study for the establishment of a food processing company in Saudi Arabia. The team conducted extensive field and desktop research, studying and reviewing the newest worldwide trends in food processing technologies and their adaptability for the Saudi Market.

hodema is currently engaged in a comprehensive kingdom-wide study to identify key business opportunities within the food processing and food supply sectors. To accomplish this task, *hodema* has identified local and worldwide F&B suppliers, conducted interviews with key managers and industry experts, analyzed the local demand and gained insight into current and future trends in this segment. The scope of work includes the identification and review of new food processing techniques, equipment and processes, which has in turn led to *hodema's* active participation in several international industry fairs and exhibitions in Spain, Thailand, Brazil, Syria and Saudi Arabia.

Typical F&B processing by level of added value



Source: *hodema*

hodema in international fairs for the development of the Food Processing Company

Barcelona fair



This year, "HisPack" and "Barcelona Tecnologias de Alimentacion" in Barcelona, Spain were regarded as the most significant fairs on food processing held in Europe. Featured were: processing, packaging and logistics pavilions including equipment, ingredients, transportation, storage solutions, etc. *hodema's* team identified local and international partners for future business opportunities as they met with potential partners, specialized engineers, consultants, equipment specialists and general food processing suppliers.

Bangkok fair



hodema participated in Propak Asia 2009 held in June in Bangkok, Thailand. This fair is the biggest processing, filling & packaging, and food innovation exhibition of the year in South East Asia. Propak Asia 2009 gathered buyers and sellers from over 30 countries. *hodema* was able to expand its understanding of the processing industry, identify innovative technologies and equipment as well as suppliers for every single step of the processing chain, from raw material to processed ready to cook or eat food.

Jeddah fair



Food, Hotel & Propac Arabia 2009 took place this year at the Jeddah centre for forums & events in Saudi Arabia. *hodema's* team was able to meet a varied pool of exhibitors from around the world, with representatives from Asia, Europe, Latin America, Australia and the Middle East. Foodstuffs new to the Saudi market were showcased alongside innovations in the hotel and catering trades. Propac Arabia has truly established itself as the leading event in the Kingdom in food technology, processing and packaging.

Development of a Traditional Saudi restaurant

Jeddah, Saudi Arabia

hodema was chosen to develop a turnkey solution for the development of a flagship restaurant offering Ethnic cuisine. The long term objective of this project is to eventually franchise the concept and export the Saudi cuisine regionally. *hodema* approached this task by conducting market studies and analyses of the current F&B offering in Jeddah and throughout the Kingdom. Subsequently, *hodema* developed and presented a concept based on the client's targets and vision: the result reflects the heritage of a very specific region of the world while adding to it a zest of modernization. The trendy and casual restaurant will be set in an ethnic "modern yet classic" architecture and design. *hodema* also provided ongoing strategic support on operational planning, budgeting, branding and communication. A minimum of one outlet per major city in the Kingdom will be developed by *hodema* on the short term.



Representation of F&B brands for their implementation in KSA

Saudi Arabia

hodema represents several F&B brands ready to be implemented in the Saudi market. These F&B brands are Lebanese, European and American.

Two of these brands – both of them born in Lebanon – namely "Margherita pizzeria del quartiere dal 1959" and "Semsom", that offers modern Lebanese cuisine, just signed master franchise agreements with a Saudi based investment company. *hodema's* mandate included the elaboration of a strategic franchise plan which aims to develop these two brands throughout KSA.

hodema acted as an intermediary between the above mentioned brands and Saudi investors. It positioned itself as a long-term partner for both stakeholders providing them with ongoing expert advice and guidance throughout the whole process.



Creation of a Food & Beverage cluster

Jeddah, Saudi Arabia

hodema was recently mandated by a Saudi Investment Group to identify and develop a multitude of F&B outlets as part of a cluster in a new commercial real estate building currently under development and set to open early 2010. The new twin tower complex is strategically located at a major thoroughfare in Jeddah and features seven floor of over 15,000 sqm of high end office space, open air courtyards, panoramic elevators and additional retail showrooms.

hodema undertook a thorough analysis of the local market, performed a SWOT review of the location and benchmarked competitors. The research findings were instrumental in formulating *hodema's* recommendations to develop an F&B mix based on 4 concepts: a modernized Lebanese cuisine franchise, an Italian specialty franchise, a newly created Saudi restaurant concept and a coffee shop. *hodema* was also instrumental in the bridging between the franchisors and investors. The team studied optimal layout options in order to allocate the various projects on the ground floor of the complex, elaborated the preliminary feasibility studies and concluded with optimal negotiation terms for all involved parties.



hodema, Gold sponsor at AHIC

Dubai, UAE



Photograph by Simon Charlton



Photograph by Nicolas Dumont

hodema was a gold sponsor at the Arabian Hotel Investment Conference (AHIC) in Dubai on May 2nd, 3rd and 4th 2009. This prestigious conference gathers international industry leaders and key regional hospitality industry players. Mr. Karim el Asmar, one of *hodema's* managing partners, moderated the panel "Pipeline promises", which hosted lively discussions of the situation regarding the regional pipeline in the context of the international financial crisis. Among the participants were architects, consultants and international and regional hotel operators.

Identification of F&B and hospitality opportunities in Old Jeddah

Jeddah, Saudi Arabia

hodema is currently developing hospitality and Food & Beverage (F&B) hubs within the Jeddah historical district, as part of the project of regenerating Jeddah's historic heart.

This highly sensitive project is a joint endeavor by *hodema*, along with international master planners, UNESCO representatives and local specialists, meant to bring back the "splendor of the past" of the 7.5 square kilometers "old town" area.

hodema has begun a thorough site mapping to identify premium potential plots for hospitality projects, and present recommendations for the development of several F&B clusters. With the help of the master planners, *hodema* identified over 70 buildings out of an inventory of 1500 buildings constituting the historical centre of the city.

Throughout its study of the historical district, *hodema* was able to present the project management committee with a new hospitality concept. In order to have the concept approved, *hodema* prepared sketches, drawings and perspectives of the hotel properties along with a renowned interior design bureau in Jeddah. The designs were presented and the vision of the future reviving a rich and unforgettable past was unanimously taken on board.

Following this, *hodema* and the project managers will collaborate and pool together resources to create the right mix of hospitality and F&B concepts initiating the revival of Jeddah's historic status as the premier commercial and trading capital of the region.



Photograph by *hodema*



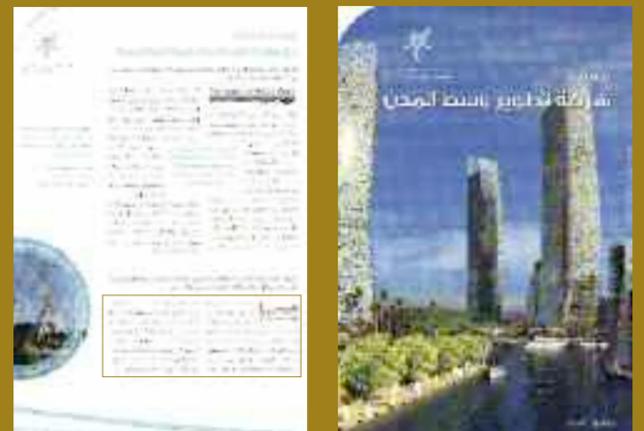
Mood board of Old Jeddah project proposed by *hodema*

hodema quoted in the press for Old Jeddah project development

Excerpts from "Platinum" Magazine



Excerpts from "City Center Development Company" newsletter



hodema in international conferences

Workshop on the Arab Tourism Bank | Damascus, Syria

hodema participated in a workshop for the establishment of an Arab Tourism Bank by presenting the trends in financing and development of hospitality and F&B projects in the Arab countries in April 2009, during the Arab Tourism Organization conference in Damascus.

Conference at IMHI - ESSEC | Paris, France

Karim el Asmar held a seminar in January 2009 at IMHI Business School in Paris, France as part of the "Leaders in the industry" conference series about the "Industry trends" in the Middle East for 2009.

Cityscape Arabia 2009 | Jeddah, Saudi Arabia

For the first time, Cityscape held a KSA - specific event in Jeddah, proving once again that the Kingdom is emerging as one of those countries that have been least affected by the international crisis, and firmly placing the spotlight on one of the world's most exciting emerging real estate markets: Jeddah. *hodema*, having participated as a visitor this year, is already preparing its participation as an exhibitor during Cityscape Arabia 2010.

HORECA 16th edition 2009 | Beirut, Lebanon

For the fourth consecutive year, *hodema* participated in HORECA, the annual hospitality and food exhibition that took place at Biel, from April 27 until April 30, 2009.



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