

## hodemahighlights



Shariah hotels in Dubai: Rose Rayhaan by Rotana (left), Layia Hotel – Future developments (middle), Tamani Hotels & Resorts (right)

With the increasing number of Muslim travelers and their growing purchasing power, Shariah-compliant hotels are becoming growingly popular in the Middle East region. Targeting a specific niche market, Shariah-compliant hotels are run and operated based on certain Islamic laws namely Shariah laws- which represent a code of conduct, which Muslims abide by. Consequently these hotels do not offer alcohol, serve only halal food products, and must follow the Zakat principles of “giving back to the community”, usually in the form of a certain percentage of the overall profit. Such hotels also have different architectural layouts, financial planning, and operational practices than traditional “full-service hotels”.

According to a survey published by [hoteliemiddleeast.com](http://hoteliemiddleeast.com), in which around 1,000 interviews were conducted with travelers from 9 countries in the Middle East, 88% were more likely to stay in a Shariah-compliant hotel during their leisure trips, whether with their families or alone.

## The rise of Shariah hotels

This article was written in collaboration with Youmna Maatouk, Karim el Asmar and Cyril Fattal from *hodema* with the help of Leena Saidi from “Hospitality News”. Excerpts were published in “Hospitality News”, October/November 2009

There is a worldwide growing demand, and in turn, supply, for such hotels. According to many experts in the field, Shariah-compliant hotels now represent almost 10% of the worldwide tourism market.

### More hotels entering this market segment

According to the World Tourism Organization (WTO), tourists from the Gulf Cooperation Council (GCC) spend US\$12 billion annually, and an average of US\$1,700 per vacation per person, which is US\$500 more than the average European spender and in a range of 10% to 50% more than what most travelers spend on average. This pattern of spending and demand has obviously attracted several international hotel companies to enter this segment of the market such as the Kempinski Hotels group with its Shariah brand “Shaza”, which plans to operate 30 five-star properties worldwide by 2015. More signs of increasing demand are up-coming hotels in non-Muslim countries, such as the UK and France, where several hospitality groups like AlMulla Hospitality, one of the prominent Shariah hotel chains based in Dubai (UAE), is planning to open around 35 properties to cater for the growing number of Muslim tourists who visit those countries.

It is also noticeable that Shariah-compliant hotels are not solely targeting Muslim tourists. Many foreigners traveling to Middle Eastern countries want to experience the authentic Islamic hospitality, thus preferring to stay in Shariah-compliant properties. In addition, Shariah-compliant hotels could prove interesting for companies organizing their meetings and conferences. Absence of alcohol would help keeping the work atmosphere more focused and professional.

### Growth of investment and Islamic finance

In this growing environment, the question remains: will Shariah-compliant hotels really survive amidst strongly established “full service hotels” that offer more flexibility on the operational, architectural and financial aspects? In fact, a Shariah-compliant hotel imposes many constraints with regards to architecture and design, room size, amenities and financial arrangements. One essential requirement is that Shariah hotels should be financed through Islamic banks. This links the investment in such a product to the growth of Islamic banking and finance. According to Islamic finance experts, the market for Islamic investment products is growing at about 15-20% a year and equity fund assets alone are forecast to jump from US\$ 15 billion in 2008 to US\$ 53 billion by 2010. The above-mentioned figures for the growth of the Shariah-compliant asset management industry reveal how quickly this interest is turning into concrete actions. The constraints concerning the human resource aspects

automatically increase overall costs. For example, employees at Shariah-compliant hotels should serve guests from the same gender. It is also preferable if the staff is of Muslim confession. Additionally, the hotel should have separate entrances for women, as well as women-only function rooms. Thus larger space is needed to accommodate separately males and females function rooms. This applies too for wellness centers where separate facilities are required for different genders. All of these factors not only increase investment costs but also ongoing operational costs. In addition, the risk factor is considered higher in Shariah hotels in comparison to “traditional hotels” where the revenues are more diversified. In fact, a Shariah-compliant hotel is believed to generate 80 to 85% of its revenues from room sales versus 40 to 60% in a full service hotel. A Shariah-compliant hotel operating in western markets is less likely to attract outside food and beverage visitors because of the absence of alcoholic beverages, that are usually greatly profitable to hotels, the limited menu offering restricted to halal only foods in addition to the lack of entertainment venues such as bars and

nightclubs. This explains why revenue generated from food and beverage outlets could be as low as 10% of overall sales in a Shariah-compliant property while in a full service hotel it stays at a minimum of 30%.

### Need for a proper Shariah-compliance classification of hotels

Keeping guests satisfied remains the hotel operators’ ultimate objective, but they must also bear in mind that they have to meet the long list of expectations that this specific niche market requires.

The increasing demand for Shariah-compliant hotels points to the need for a classification system, similar to the star rating for hotels, as well as for reliable Shariah-compliant hotel guidebooks to help clients choose between hotels. Furthermore there is a need to establish an official organization or association, involving a committee including religious personalities, to regulate and oversee these hotels.

As for the travelers who wish to stay in such establishments, they must accept the higher prices charged, brought about by the extra costs incurred by being Shariah-compliant hotel. As long as guests are willing to cover these extra costs and demand remains adequate, this new trend in the hospitality industry will boom.

| Key players in Shariah hospitality    |  |              |                          |                          |                       |             |
|---------------------------------------|--|--------------|--------------------------|--------------------------|-----------------------|-------------|
| Parent Company                        | Brand Names  | Dry/Shariah* | # of existing properties | # of Upcoming Properties | Expected Opening Date | Location    |
| Rotana                                | Rayhaan Hotels & Resorts   | Dry          | 3                        | 30-40                    | 2012                  | Middle East |
| Kempinski Hotels                      | Shaza  | Dry          | n/a                      | 6                        | 2015                  | Worldwide   |
| AlMulla Hospitality                   | Cliftonwood, Adham, Wing Hotel   | Shariah      | 3                        | 35                       | 2012                  | Middle East |
| AI Jawhara Group                      | Jawhara  | Shariah      | 3                        | TBC                      | n/a                   |             |
| HMH (Hospitality Management Holdings) | Coral Hotels & Resorts, Corp Executive Hotels, ECOS & EWA Hotel Apartments | Dry          | 19                       | 16                       | 2010                  | Middle East |
| Landmark Hotel Group                  | n/a  | Shariah      | 7                        | 7                        | 2010                  | UAE         |
| Samaya Hotels & Resorts               | Samaya Hotels & Resorts  | Dry          | 2                        | 2                        | n/a                   | UAE         |
| Seraii Hospitality                    | Royal Seraii, Grand Seraii, Caravan Seraii, & Tijan by Royal Seraii        | Shariah      | n/a                      | 25                       | n/a                   | MENA        |
| KM Properties                         | Tamani Hotels & Resorts  | Shariah      | 1                        | 3                        | 2010                  | UAE         |

| Shariah-compliant hotels compared to fully serviced properties |  |  |
|--|--|--|
| Characteristics  | Shariah-Compliant Hotel  | Full Service Hotel   |
| <b>Target Market</b>   | Religious family-oriented and business visitors who demonstrate traditional Islamic attitudes. Another niche market would be business people particularly women.   | Catering to everyone depending on the hotel category.  |
| <b>Architecture/Design</b>                                     | It should be conservative, toilets and beds should not be placed in the direction of the Mecca.  | Except for the standard imposed by hotel operators, developers are free with regards to hotel design.  |
| <b>Room Size</b>   | Usually bigger than the industry’s average because of the particular needs of the target market. It is also very common to have Shariah-compliant hotel apartments. Standard room starts from 61 sqm   | A standard room ranges from 30 to 40 sqm., Junior suite from 55 to 65 sqm., Presidential suite from 200 to 220 sqm.  |
| <b>Staffing</b>  | It is required that staff should serve guests from the same gender and it is also preferable if they are from the Muslim confession / They should wear traditional uniform / In-house religious figures can host seminars and preaching sessions.  | There are no staff requirements, as such.  |
| <b>Operating Revenue Breakdown F&amp;B</b>                     | Revenue from rooms 80 to 85% / Revenue from F&B is 10 to 20%<br>Revenue from other departments 5 to 10%  | Revenue from rooms 40 to 60% / Revenue from F&B is 30 to 40%<br>Revenue from other departments 5 to 10%  |
| <b>Amenities</b>   | No alcohol served / Food should be Halal; and no pork served / The hotel should not have any bar/nightclub.<br>No revenue from alcohol   | No restrictions / Alcohol, which brings 80 – 90% gross profit, can increase overall F&B revenue.   |
| <b>Hotel Size</b>  | All facilities such as gym and spa should be separated by gender, as well as segregated prayer rooms / TV channels available should be conservative / Markers pointing the Mecca direction should be available in the hotels / Rooms or reception should have the Holy Quran, prayer mats, and prayer beads. | Usually has mixed gender facilities however they usually include prayer rooms and markers showing the Mecca direction especially in the Middle East.           |
|  | The size of these hotels tends to be smaller due to lack of large demand.  | These hotels are usually larger due to the fact that they are international companies and have a higher demand. A typical 5-star would average with 350 rooms. |

Source: *hodema*

\* Many people confuse ‘Dry’ hotels with Shariah-compliant hotels although they only have one similarity: the lack of alcohol. Hence, all Shariah-compliant hotels are dry but the opposite does not apply.



Badr Fayeze graduated in 1997 from Dar Al Fikr Schools in Jeddah KSA. He then traveled to the United States where he studied Culinary Arts and received a BS in 2005 as well as an MBA in Marketing in 2008, from Johnson & Wales University (JWU) in Providence, Rhode Island.

Restaurants and hospitality business in general have always been his core interests. Back in Jeddah, he worked with Leylaty Ballroom, a major player on the catering scene in the city. He started off as a trainee in 2002, moving on to becoming a pastry chef assistant in 2005, helping prepare for weddings and large events. He also worked in Vienna, Austria in 2002 at the Five-star Grand Hotel, moving through different outlets and learning different cuisines. In 2003, he worked in Lallo, an Italian restaurant in Tahlia Street as a line cook responsible for all the hot appetizers and meat dishes.

During his years of experience, he developed a great passion for the food industry, a passion that extends from opening restaurants to organizing and preparing cooking shows. His future plans are mainly to be able to implement a highly and internationally renowned educational facility for the Culinary and Hospitality industry in the Kingdom of Saudi Arabia.

Photographs by Fahad Ayyad

## Interview with Badr Fayeze

Restaurants' owner, developer and operator

***hodema* has helped me significantly in identifying and understanding the market for two concepts we are working on.**

### 1 • Which hospitality projects are you currently working on with *hodema* in Jeddah? Who is your target clientele?

I am working with *hodema* on the development of two restaurants' concepts in Jeddah, both offering fish-based cuisine. The first project is a high-end seafood restaurant located in La Marina. In my opinion, Jeddah city lacks high-end outlets so my main target would be families, businessmen, politicians, or women, all seeking great quality food and upscale service, of the sort they would get in high-end restaurants abroad. The second project is a sushi restaurant positioned in the mid-end segment that will offer great sushi at reasonable prices. My main target here is a young clientele - college students, young entrepreneurs, working women, etc. The target age bracket would be approximately between 18 and 35.

### 2 • You are investing in two F&B concepts. What are your objectives, and what challenges are you facing in a market like Jeddah?

I have a main objective that drives me through the whole development process: to set new standards in the restaurant business in terms of quality of food offered, service provided to clients, and in the overall restaurant experience. I am starting my developments in Jeddah, and who knows, I may extend my projects to the rest of the kingdom. This task is not simple and I am facing several challenges, especially when it comes to dealing with governmental circles. Unfortunately I have to say that the bureaucracy and its lengthy processes are hindering my progress and jeopardizing my deadlines. However, I am still optimistic that things will work themselves out.

### 3 • How would you describe the restaurant market in Jeddah?

Going out to restaurants today constitutes one of the main entertainment activities in the kingdom and in Jeddah in particular. The Food & Beverage market in the city is growing quite fast with an increasing number of new concepts, but it can still be considered as underdeveloped with plenty of room for improvement. I know many people wish to invest in this attractive industry but they are not interested in this business from a 'food and beverage' perspective. They are mostly interested in the financial aspects of the project and the rates of return instead of the quality of the products being served. They see a restaurant only as an investment, and this approach threatens the F&B market quality level as a whole.

### 4 • In your opinion, how did the consumer behavior change in the last decade in KSA? What are the needs of the Saudi hospitality market today?

In the past, when the F&B market was still in its early stages, a restaurant owner could cut costs after opening his outlet and the customer would not even notice the difference. I think today Saudi consumers are more experienced, they know exactly what they like or don't like; they are able to detect any changes, especially when they are accustomed to a place, whether in the food being served or the service itself. This is supported by the fact that they have a wider choice of restaurants to select from as well as increased purchasing power.

As I previously mentioned, the F&B market is and might remain the only form of entertainment in KSA for years to come. I think the focus of new F&B comes on Jeddah market should be redirected to the entertainment value and innovative aspects of an outlet rather than on the creation of restaurants as food manufacturing plants.

### 5 • What message would you like to send to the young Saudi entrepreneurs in Jeddah and KSA?

There are two messages that I would like to communicate to young Saudi entrepreneurs. First, do what you like! Find your passion in life and manage to make your career out of it. Second, I want to assure them that they don't need a huge initial investment amount to create quality products; what is important is to learn how to invest their money wisely and carefully in order to be able to generate more money. The Kingdom of Saudi Arabia encompasses numerous opportunities: our economy is doing very well; it has not suffered from the financial crisis. Our government has embarked on large economic reforms which have encouraged a growing number of projects in various fields among which are hospitality and tourism. This context offers young people beautiful opportunities that they have to seize.

### 6 • How would you describe *hodema's* input as consultants in the development of your projects?

*hodema* has helped me significantly in identifying and understanding the market for two concepts we are working on. *hodema* provided me with exhaustive information about my potential competitors and helped me in mapping the city in terms of restaurant supply. *hodema* consultants also supported me in refining my preliminary idea to reach the concept that is currently being implemented and which I am very proud of. *hodema* consultants also answered my various requests with professionalism and a hands-on approach while providing me with fruitful advice and respecting the deadlines I had set for the mission's completion. They were involved in my projects to a stage where today I no longer consider them only as my consultants but also as my partners. I know they will remain on my side no matter what the project outcome will be. I hope that with Allah's will and our hard work, we will together see long-term and sustainable success.

## Development of a turnkey project for a high end fish restaurant

Jeddah, Saudi Arabia

*hodema* was approached by a high profile Saudi F&B specialist for the turnkey development of a high-end, innovative and trendy fish restaurant in Jeddah. *hodema* began by evaluating the fish restaurant market and the trends throughout the kingdom. Having identified the market gaps, *hodema* then developed the concept, taking into consideration the client's objectives and the market outlook. *hodema* also provided recommendations on the project design, architectural layout, services, human resources strategy and business plan.

*hodema's* role was also a determining factor in finding the right location for the restaurant and assisting the project owner in negotiations with the real estate company.



## Development of a turnkey project for a mid-end sushi bar

Jeddah, Saudi Arabia

During the course of the market study, *hodema* reviewed and evaluated the prospects for the development of a new sushi restaurant in Jeddah. Subsequently, through brainstorming sessions, *hodema* developed an original and innovative sushi bar concept tailored to Jeddah market.

*hodema* also provided counseling and recommendations to the developer on the design, the architectural layout, the service, the human resources strategy and the business plan of such a concept. As a next step, *hodema* will be involved in the strategic development of the project, providing support during the construction phase, the development of the menu and the operation set up.



## General assessment for a mid-end F&B delivery concept

Jeddah, Saudi Arabia

*hodema* was mandated by the board of directors of a company owning a mid-end F&B delivery based concept in Jeddah to perform a general assessment on their outlet. *hodema* team performed a full assessment on different levels: the company's strategy, the concept, the premises, the operations, the marketing and the financials. In the course of its mission, *hodema* carried out numerous spot checks and conducted individual interviews with the company's management and personnel to gain insight into every aspect of the business. Following its analysis, *hodema* was able to establish its diagnosis and develop concrete and hands-on recommendations for the short, mid and long term ranges. Later on, *hodema* presented the findings and recommendations to the board of directors and conducted several follow-up meetings with the outlet's management.



## Concept development for an F&B retail investment company

Saudi Arabia

*hodema* was requested by a pool of investors to lay out the foundation of an investment company focusing on F&B retail in KSA. *hodema* conducted a study on the F&B retail market in KSA and highlighted opportunities and market gaps. Moving on to developing the concept of the F&B retail investment company, *hodema* defined areas of interest and elaborated an optimal investment mix. Finally we laid out the fundamentals of the company's structure. Moreover, *hodema* proposed several recommendations and solutions, such as the acquisition and management of brands, the development of original concepts, the establishment of training academies, the identification of real estate opportunities and the development of a procurement management process. *hodema* also performed a preliminary feasibility study on the project and presented the final concept to the investors.

## Development of an F&B operations management company

Saudi Arabia

The Kingdom of Saudi Arabia is witnessing rapid and dynamic growth in the F&B sector, creating several opportunities for investors and F&B specialists. Following a market analysis, *hodema* identified the chance to create a food and beverage operations management company in KSA. *hodema* laid out a strategic plan for the development of the company, detailing its objectives and the various options to achieve them. *hodema* presented innovative solutions with regards to the company's structure, its human resources and the competitive edge required for successful development in KSA. Subsequently, *hodema* developed a feasibility study to assess the viability of the venture and to allow for a sound decision-making process concerning the company's future. Throughout the project, *hodema* interacted on a high level with investors and industry specialists to lay out the basis of the structure for the management company.



Source: *hodema*

## Peer review and summary fact presentation for a meat processing company

### United Arab Emirates

*hodema* was mandated to review the preliminary market and feasibility studies as well as the project presentation for the establishment of a sausage and cold cut manufacturing plant to be based in the UAE.

The project, conceived as a joint venture between a leading German sausage brand and a local distribution company in the UAE, targets high-end hospitality and service establishments as well as high-end food retail across the UAE. *hodema* undertook a desk research and analyzed various industry related articles and expert reports, establishing direct contact with potential clients and decision makers. *hodema* also performed field research, interviewing several managers of 5 star hotels in the UAE, and visiting several premises to assess the competitors' operation.

In addition, *hodema* developed a summary fact presentation to investors on this project.

Subsequent to the desk research and field visits, *hodema* submitted a report summarizing the findings and providing recommendations to the investor.

## Owner representation for the implementation of two Lebanese franchises

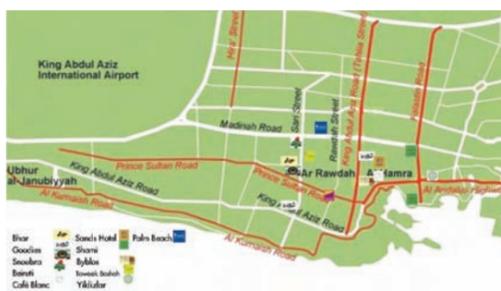
### Jeddah, Saudi Arabia

*hodema* was assigned the role of owner representation for the development of two Lebanese franchises in Jeddah. As a first step, *hodema* coordinated the relation between the franchisor and the franchisee, acting as the owner representative on behalf of the franchisee. *hodema* took ownership of these two projects' development and coordinated with the various parties involved, such as the franchisor's technical team, the contractor and the franchisee's management. *hodema* also helped identify an operation team for the account of the franchisee. Once the franchisee's operation team was in place, *hodema* handed over the two franchises to their management teams.

## Competition survey on mid end restaurants with a focus on the Lebanese cuisine supply

### Jeddah, Saudi Arabia

*hodema* was approached by a famous brand of Lebanese cuisine restaurant to perform a comprehensive competition survey in Jeddah. *hodema* began by identifying and short-listing potential competitors in the city. *hodema* then followed up by visiting, over an extended period of time, each of the short listed competitors at different times of the day and the week, performing an assessment on their concept and operations. *hodema* then developed area maps on main shopping malls, mid-end restaurants, coffee shops and fast food restaurants. Proceeding this way served to identify market gaps for the implementation of this modern and pioneering Lebanese cuisine brand. Finally, *hodema* presented the client with a complete file, incorporating competitor profiles, competitor price comparisons, market and city overviews, plotted maps and recommendations.



Source: *hodema*

## Flash assessment and presentation to investors of a franchise opportunity for a frozen yogurt concept in the Middle East

### Saudi Arabia

*hodema* was requested to provide an expert opinion on the potential for the implementation of a London-based frozen yogurt concept and to perform a flash assessment on its adaptability to the Middle East market. *hodema* was approached by a regional group of investors wishing to diversify their activities in the F&B sector in the Middle East.

*hodema's* report included a brief description of the frozen yogurt product, underlining the trends on the markets. *hodema* then evaluated the potential of such concept in the Middle East and analyzed market gaps and demand for the frozen yogurt product. Based on the findings and analysis, *hodema* provided recommendations to the investors.

In the remitted document, *hodema* presented key decision-making reference points to guide the investors through their decision making process.

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