

ON THE MAP KUWAIT

Can Kuwait's hospitality industry reinvent itself?



The Kuwaiti government recently released a tourism development plan laying out the expansion perspective for the long-term growth of the industry, **Karim Asmar**, managing partner at Hodema consulting services takes a closer look at what this means

The Kuwaiti government recently released a tourism development plan laying out the expansion perspective for the long-term growth of the industry. It is the first time that such a plan has been included in the long-term socio-economic master development plan for the country. Significantly enough, Kuwait does not have a ministry of tourism and tourism issues are still handled by the ministry of trade and commerce (Table 1).

Table 1 - Key factors and PEST analysis of Kuwait

| | |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Name | Kuwait |
| Location | Middle East, bordering the Arabian Gulf (coastline 499 km). Borders with Iraq and KSA |
| Surface | 17,818 km |
| Political | <ul style="list-style-type: none">• Democracy• National Assembly• Female voting since 2005 |
| Economy | <ul style="list-style-type: none">• Mainly oil dependent economy• Recent trend of diversification towards non-oil sectors |
| Social | <ul style="list-style-type: none">• Semi conservative society• Open to western cultures |
| Technology | <ul style="list-style-type: none">• Regional telecommunication hub |

Source: CIA world fact book 2010, compiled by Hodema

However, a plan of this kind cannot replace the need to invest in upgrading the country's infrastructure. According to the Gulf Cooperation Council (GCC) authorities in a review on the region's activity in 2009, the construction sector in Kuwait employs only 8% of the workforce as opposed to 37.5% in Oman, 44.3% in Qatar, 35% in the Kingdom of Saudi Arabia (KSA) and 22.3% in the United Arab Emirates (UAE). Moreover, according to Samba Bank (KSA) the construction share of Kuwait's real Gross Domestic Product (GDP), a measure of a country's overall economic output, is the lowest in the region with only 4%. (Table 2)

Table 2 - Kuwait GDP breakdown by economic activity

| KD millions | 2007 | % of GDP | 2008 | % of GDP | 2009 | % of GDP | % change |
|--------------------------------------------|--------|----------|--------|----------|--------|----------|------------|
| | | 2007 | | 2008 | | 2009 | 2008 2009 |
| Agriculture and fishing | 70 | 0.21% | 72 | 0.17% | 73 | 0% | 3.5 1.9 |
| Mining and quarrying | 17,094 | 50.18% | 23,654 | 56.92% | 14,232 | 43% | 38 -39.8 |
| Coke, refined products and nuclear fuel | 907 | 2.66% | 838 | 2.02% | 750 | 2% | -7.6 -10.5 |
| Manufacturing (excluding refined) | 896 | 2.63% | 918 | 2.21% | 932 | 3% | 2.4 1.5 |
| Electricity, gas and water | 337 | 0.99% | 363 | 0.87% | 419 | 1% | 7.7 15.4 |
| Construction | 596 | 1.75% | 605 | 1.46% | 585 | 2% | 1.5 -3.3 |
| Trade, hotels and restaurants | 1,371 | 4.02% | 1,386 | 3.34% | 1,382 | 4% | 1.1 -0.3 |
| Transport, storage and communication | 2,395 | 7.03% | 2,590 | 6.23% | 2,624 | 8% | 8.2 1.3 |
| Finance, real estate and business service | 6,307 | 18.51% | 6,348 | 15.27% | 6,116 | 19% | 0.7 -3.7 |
| Of which | | | | | | | |
| Financial institutions | 4,564 | 13.40% | 4,627 | 11.13% | 4,413 | 13% | 1.4 -4.6 |
| Real estate services | 1,277 | 3.75% | 1,205 | 2.90% | 1,182 | 4% | -5.6 -2 |
| Community and social and personal services | 4,090 | 12.01% | 4,786 | 11.52% | 5,612 | 17% | 17 17.3 |
| Sub total | 34,068 | 100% | 41,559 | 100% | 32,725 | 100% | 22 -21.3 |

Source: National Bank of Kuwait, Capital (NBK-Capital)-2010, compiled by hodema



Kuwait is a country seeking to diversify its economy. Noticeably enough in 2009 the oil related sector represented 45% of GDP while non-oil related sectors represented 55%. This comes in confirmation of a strategy to diversify away from oil related economy and transform Kuwait into a finance and services hub. In 2007, oil related sectors represented 52% of total GDP. True, such change was also influenced by the drop in oil prices. However, while reviewing the structure of the Kuwaiti GDP, we observe a 17% growth at the level of the services sectors, and 9% at the level of the transportation sector year-to-year, between 2007 and 2009.

This diversification however is not benefiting the tourism industry, which is expected to represent 4.5% of the GDP in 2010 and fall to 4% by 2020 according to the World Travel and Tourism Council (WTTC).

Although the country hosts a number of prominent international hotel brands, such as Marriott, Holiday Inn, and Hilton, tourism is not at the heart of the government's strategy and is considered somewhat a supporting activity to the fundamental economic drivers such as oil, finance and services. The driving force behind tourism has been the establishment of American troops in neighboring Iraq, government related business and the corporate business community. The country is offering little diversification into leisure, entertainment and health.



According to Proleads (Projects & Leads journal – UAE), only 27 projects, out of a pipeline of 449 hotels in the Middle East and Africa, are scheduled in Kuwait against 258 in UAE, 83 in KSA and 35 in Bahrain.

As the Revenue Per Available Room (RevPar) peaked at USD 196 and 84% in 2003, and dropped to USD 151 and 57% in 2009, Kuwait's tourism industry needs to define new drivers of growth, otherwise it will not benefit from the additional 27 properties in the pipeline. (Figure 1)

Kuwait is a country of many faces. The Kuwaiti government has sought after means of creating longtime wealth, while reducing dependence on oil. In a concerted effort with GCC countries, Kuwaiti government is considering tax incentives to help develop non-oil economies. In an effort to move away from a single-sector economy, Kuwaiti entrepreneurship is being encouraged and developed along with the Kuwaitization that fosters the employment of Kuwaiti nationals. To date, the majority of Kuwaitis are employed as government civil servants and the private sector Kuwaiti workforce.

Kuwait is home to the Gulf's very first stock market established in 1970 and the country spearheads Islamic finance in the Gulf and the Arab world. Kuwait hosts leading Islamic financial institutions such as Kuwait Finance House recognized as one of the world's leading Islamic financial establishments.

Such a financially supportive environment has helped to launch the construction of malls, which became the most significant real estate trend in the region. As a result, Kuwait is the headquarters for the largest retail groups in the region such as Alshaya, Azadea and Chalhoub, and is the launch pad for a large number of international retail brands in the region such as Zara and Louis Vuitton.

Overtime, Kuwaitis have proven to be a brand-aware population and in many cases trendsetters in the Gulf. We find a similar trend in the food and beverage (F&B) sector. Indeed, the country has been the gateway to the Gulf and the Middle East for international franchises. Pinkberry, the international frozen yoghurt brand has opened its first Middle Eastern outlet in Kuwait, operated by Alshaya.

Significantly enough, Kuwait is also the home to the largest F&B groups in the region such as Alshaya, Kout Food Group and Americana. With 72 Starbucks, 54 Burger Kings, 36 Pizza Hut and 62 McDonalds', Kuwait has a strong penetration of international brands. Operators find that eating out is a well-established behavior in Kuwait, and this helped trigger the creation of new concepts.

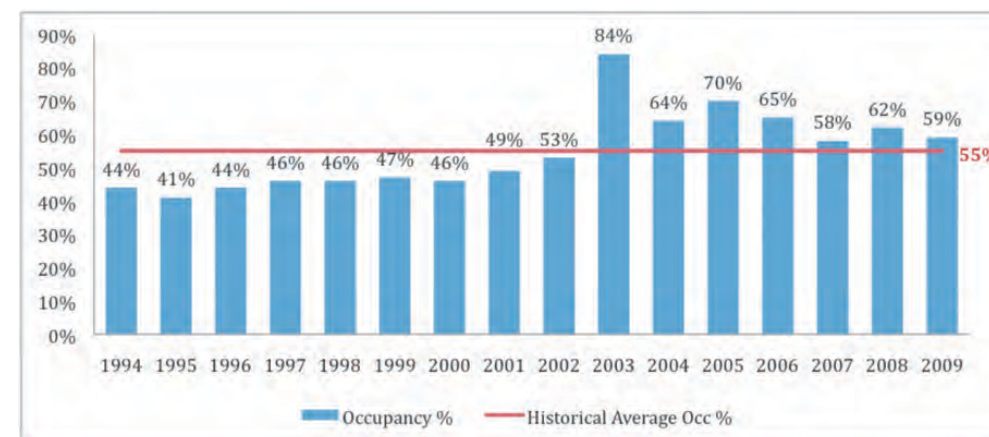
Despite weak investments in the infrastructure, the private sector proves to be very dynamic, and the country has positioned itself as a key player in a number of sectors and industries. However, the country has not been able to diversify its tourism. Despite being a capital in retail and food and beverage in terms of expansion and activity, Kuwait is neither a shopping nor a food destination.

The Kuwaiti market is mature today when it comes to brands, and we see the development and expansion of homegrown brands. Whether in the hotel industry with Safir and Refad, or in F&B with Maki, The Chocolate Bar, Burger Boutique, Sarai and Noddle Factory from Alshaya, Kuwait is confirming its status as a brand lab in the region.



With entrepreneur-oriented incentives, such trends might develop further. Investors are attracted to restaurants and focus on F&B where the investment is lower than hotels and the Return On Investment faster. The expansion is however limited by the scarcity and cost of locations, which are among the highest in the region.

Figure 1 - Kuwait hotels historical occupancy (%) 1994-2009



Source: HVS-Middle East Hotel Survey 2010, compiled by hodema

The hospitality industry requires infrastructure investments, and the Kuwaiti government has been found wanting on this account. The Kuwaiti tourism industry holds several driving forces such as diversified retail scenery, developing medical care facilities, and strong logistics centers that would allow it to reinvent itself. Indeed, Kuwait can still exploit its coastal area, focus on services industries or become a logistics hub in the region.

The situation is promising, however there are challenges as the main drive is coming from the private sector, and to sustain the development of tourism, infrastructural investments are required to help promote the country as a viable destination. ■

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