Qatar Food & Beverages Sector

Sector Analysis

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1. Food & Beverages Sector Overview

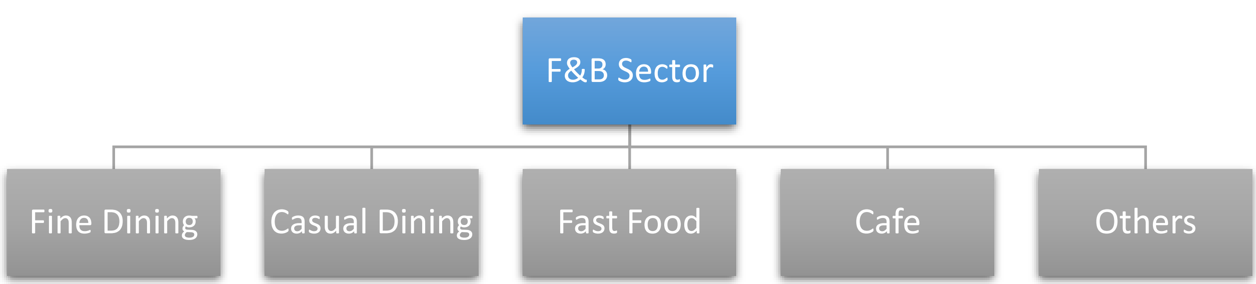
The food and beverage (F&B) sector comprises of companies involved in the preparation & serving of food and beverages items for immediate consumption. The global food and beverages market was estimated to be over $5,650 billion as of 2017 (prnewswire.com, 2018) and has seen healthy growth over the last ten years. The growth trend is expected to continue due to rising population, economic growth and increasing disposable income.

The Asia Pacific is the fastest growing region in terms of consumer spending on eating out, with average annual growth of 9.8% from 2006 to 2016, while average annual growth of 7.5% is forecasted for the 2017-26 period. The Middle East & Africa was the second fastest growing region between 2006-16, with average annual growth of 7.4%. This region also holds the second spot for the strongest forecast of growth for 2017-26 at 7.3% per annum (Upa.it, 2017).

The F&B sector of Qatar has thrived over the years due to the cultural diversity of the country's population as well as growth in tourism that has given rise to a host of restaurants serving various cuisines from around the world. Eating and drinking are considered an integral part of the culture, and it is an important medium of socialising. The size of the food & beverage sector of Qatar was estimated to be QAR 6,993 million in 2016 with estimated 2,950 operational outlets as of December 2016. (Food & Beverage Services Sector in Qatar, 2018).

2. Qatar Food & Beverage Market Segmentation

The F&B sector of Qatar can be divided into five segments with each segment catering to a different target market across nationalities & income groups. The market segments are as follows:



2.1. Fine Dining

A fine dining restaurant offers a high-class dining experience with per person price meal in excess of QAR 150. Five-star hotels are considered prime locations for fine dining restaurants as they provide an upscale environment, access to hotel guests & tourists, and permission to sell alcoholic beverages. Examples of fine dining restaurants in Doha include Nobu & Hakkasan. As per data consolidated by QDB, there are 142 fine dining outlets operational in Qatar, accounting for 9.7% of total F&B sector revenues in 2016. Fine dining contribution towards overall F&B revenues is relatively small as compared to other segments. (Food & Beverage Services Sector in Qatar, 2018).

The presence of a high-income consumer base in Qatar along with tourist arrivals provides opportunities to fine dining restaurants as consumers have the ability and spending power to visit high-end restaurants. Moreover, the fine dining experience is much more than food; it's about overall customer experience.

Consumer preferences and market trends play an important role in the success of fine dining restaurants, and any shift in consumer preference has to be captured in an updated menu and offerings. Major challenges faced by fine dining restaurants in Qatar include changing consumer preferences and lack of sufficient footfalls to sustain the business. The setup cost of a fine dining restaurant is high as expenditure incurred on decor, chef training and ambience is in addition to food. The wastage factor is also involved as the focus is on serving fresh food. (Food & Beverage Services Sector in Qatar, 2018). Secondly, the rapid development of hotels in the country may lead to an excess supply of fine dining restaurants and results in lower customer footfall as the customers are divided over a large number of hotels.

2.2. Casual Dining

A casual dining restaurant serves food that is reasonably priced in a casual setting with a per person meal price ranging from QAR 25-150, e.g. Nando's, Applebee's, Al Shami Home, etc. Casual dining restaurants account for the largest share of F&B sector revenues at 38.2%, and there are 795 casual dining outlets operational in Qatar as of 2016. Approximately 66% of casual dining restaurants operate as standalone outlets whereas some are also located within malls and hotels (Food & Beverage Services Sector in Qatar, 2018).

Casual dining centres are more affordable to the broader customer base, and this is the reason as to why they account for the largest share of F&B sector revenues. Moreover, these restaurants are geared towards families; therefore, the footfall is relatively higher. Competition is the biggest challenge faced by casual dining centres along with price-sensitive customers. Increased inflation along with pressure to keep up with competition means that the casual dining centres have limited ability to pass on rising costs.

2.3. Fast Food Restaurants

Fast food restaurants provide standardised food with a focus on speed of service e.g. McDonalds, KFC, and Burger King. The meal price per person ranges between QAR 3-75. Its share of total F&B revenue stood at 18.1% with 689 outlets operational in 2016. It is the second largest market segment. Fast food restaurants focus on convenience and speed of service; therefore the majority (84%) of these outlets operate on a standalone basis (Food & Beverage Services Sector in Qatar, 2018).

The principal advantage of a fast food restaurant is standardisation of the menu and product consistency. However, a major challenge being faced by fast food restaurants is a shift in consumer preferences towards healthier eating. Fast food is generally not considered healthy, and the change in consumer preferences towards healthier food options will diminish the target market of fast food. This will also enhance rivalry amongst existing players as they would have to compete for a shrinking share of consumers.

2.4. Cafés

A café is a restaurant that does not offer table service. Customers order their food from a counter and serve themselves. Cafés serve a mix of food & beverage products including coffee, hot & cold drinks, pastries, baked goods, sandwiches, etc. There are a total of 733 outlets (including dessert parlours and beverage serving outlets) operating under this category and contributed about 22% share in total F&B revenues in 2016. Cafés operate in a wide array of price points with average meal price per person ranging from QAR 7 to QAR 175. Close to half of the cafés (54%) operate as standalone outlets while the remaining are located within hotels & malls (Food & Beverage Services Sector in Qatar, 2018).

A café's role in acting as a socialising or a meeting place helps preserve its relevance. None of the other segments can serve as a substitute for cafés in this regard. Therefore, the target market of cafes are specific, and it’s difficult for other sub-segments to compete with cafes in this respect. However, challenges faced by cafés is competition from other cafés, given a wide variety of them serve a relatively small geographic area.

2.5. Others

The "others" category includes cafeterias, dessert parlours, and beverage outlets having a share of 17% in total F&B revenues in 2016. Cafeterias include small scale food & beverages outlets with a focus on economical prices rather than decor & service. Price per person for each meal ranges from QAR 5 to QAR 30 (Food & Beverage Services Sector in Qatar, 2018).

Dessert parlours are primarily engaged in the service of ice-creams, desserts, etc., e.g. Baskin Robbins, and Cold Stone. The price per person for a meal ranges between QAR 5 to QAR 100. Moreover, beverage outlets serve fresh juices, milkshakes, tea, coffee, etc. Some of the examples include Forty Fruity, Tutti Frutti, etc. The price per person is in the range of QAR 5 to QAR 45 (Food & Beverage Services Sector in Qatar, 2018).

3. Qatar Food & Beverages Growth Drivers

The growth drivers contribute towards the progress of the F&B sector and are directly linked with the changes in the infrastructural landscape, and economic development initiates undertaken by the Government. The five main growth drivers are as follows:

3.1. Government Support

The Qatari government has undertaken numerous initiatives to encourage its local companies to expand into regional and international markets as envisioned in Qatar National Vision 2030. These initiatives include the establishment of Hamad Port, participation in food expos and development of new malls & hotels.

The establishment of a new major seaport in Qatar (the Hamad Port) will assist in finding export markets for local companies operating in the F&B sector. In addition to finding export markets, the development of this major seaport will also allow convenient import of raw materials related to the F&B industry. Therefore, Hamad Port, with its geostrategic location will allow the local companies to charter new trading routes and strengthen trade relations with external markets.

Qatar Development Bank's (QDB) participation in food expo provides visibility and opportunity to local food manufacturers to market their products and capture new export markets. In October 2016, QDB participated in SIAL exhibition in Paris and participated in GulfFood expos in March 2017. Similarly, QDB spearheaded promotions of Qatari products in a 5-day exhibition known as Anuga 2017 in Germany (Qatar is Booming, 2017).

3.2. High-Income Consumer Base

Consumer base plays an important role in the F&B sector. The Qatari consumer base characteristics are favourable for the F&B , and it is one of the primary reasons for a positive outlook. These characteristics include high income, young & urban-based, and a growing expatriate population. The benefit of a young consumer base means a preference for eating out is high as compared to cooking at home. Moreover, a willingness to use technology in ordering food and exploring food delivery options is also high. All of these factors support sectoral growth. In the long run, rising income translates into higher demand for healthy eating options & premium goods. This will encourage consumptions of certain market segments such as Organic Food, Diet Food etc.

3.3. Construction of New Malls & Hotels

Qatar is undergoing considerable development owing to a government drive towards achieving self-sufficiency in the food industry, diversification away from a hydrocarbon-based economy and FIFA World Cup-related development. Construction of new malls & hotels will expand the options and reach of food & beverage companies by multiplying avenues available for consumption of food & beverages. An estimated 62 additional hotels and 16 new malls are expected to commence operations by 2020. (Food & Beverage Services Sector in Qatar, 2018).

3.4. FIFA World Cup

Hosting of the mega sporting event in 2022 will provide a one-time boost to the F&B sector of the country. According to Qatar Development Bank, FIFA World Cup is likely to produce a one-time boost of QAR 6,433 million to F&B sector in 2022. This is based on estimated additional tourists of 3.1 million during World Cup and average spending of QAR 288 per person per day spent on F&B for a stay ranging from three to eleven days (Food & Beverage Services Sector in Qatar, 2018).

3.5. Limited Entertainment Options

The entertainment options in Qatar are limited due to cultural and climatic reasons (high temperatures). Therefore, eating out is a major source of entertainment and account for a substantial part of discretionary expenses.

4. Issues & Challenges Faced by Qatar F&B Sector:

The five main issues and challenges faced by the F&B sector of Qatar are as follows:

- Import Dependency
- Securing suitable location
- Experienced & Competent staff
- Changing consumer preferences
- Delay in obtaining licenses

4.1. Import Dependency

The F&B sector is highly dependent upon imported sources of raw materials. Although a large number of suppliers exist in the Qatari market, making switching cost between suppliers is low, nevertheless, reliance on import of raw materials means that the sector is highly dependent upon global supply chains. (Food & Beverage Services Sector in Qatar, 2018). Government efforts in achieving self-sustainability in food will mitigate this concern to a large extent.

4.2. Securing Suitable Location

The selection of a suitable location based on target market and concept plays a significant role in determining the success or failure of a restaurant. A location such as malls & prominent tourists spots are suitable for casual dining, QSR and Café, while five-star hotels are appropriate for fine dining restaurants. Therefore, the challenge is to secure the required amount of space at an affordable rental rate in the desired location. It's a challenge because characteristics of location directly impacts the long-term profitability and sustainability of companies operating in the F&B sector (Food & Beverage Services Sector in Qatar, 2018).

4.3. Experienced & Competent Staff

Competent staff is a source of competitive advantage in the F&B sector. However, the local talent pool for staff is limited; therefore, companies operating in this sector have to compete for the same talent pool. Moreover, if the company chose to recruit from other countries, then this process can be time-consuming. Once hired, the employees would have to undergo training which will further delay their induction into the company's operations. Consequently, the limited availability of competent & experienced staff is a challenge in this sector (Food & Beverage Services Sector in Qatar, 2018).

4.4. Changing Consumer Preferences

The rising health consciousness of consumers signifies a shift in consumer preferences. Present day consumers are not only interested in the health-related benefits of the products but have also shown an inclination towards learning about the product preparation process and sourcing of raw materials. Many manufacturers and producers are increasingly using natural ingredients and have also reduced the use of artificial colours and flavours. Health concerns of consumers are increasing the sales of products with natural ingredients, additives and colouring agents (prnewswire.com, 2018).

4.5. Delay in Obtaining Licenses/Approvals

Businesses need to obtain licenses and approvals from relevant ministries in order to set up a F&B related business in Qatar. It can be challenging and time consuming given the elaborate documentation requirements and stringent regulations. Moreover, visits by relevant regulatory bodies also need to be arranged before the commencement of operations. Consequently, delay in obtaining licenses and approvals from relevant ministries constitutes a significant challenge to F&B companies operating in Qatar.

5. Sector Outlook

Expenditure on eating out is expected to rise steadily over the next ten years. The Middle East & Africa region is forecast to see an average annual growth of 7.3%. (Upa.it, 2017). The outlook for Qatar Food & Beverages sector is encouraging. Growth is expected in food sales and an increased focus on self-sustainability is leading to higher investment in local production of food. This will have an added benefit of incentivizing homegrown eateries. The high disposable income of Qatari consumers along with food being the major source of entertainment are other driving factors behind F&B sectoral growth. Furthermore, the predominantly hot and dry climate of Qatar will ensure sustained demand for beverages with sales of water & carbonated drinks are expected to make a significant contribution to sales growth as compared to alcoholic drinks sales. Government restrictions on sales and consumption of alcoholic drinks will constrain its growth prospects (Qatar Food & Drink, 2019).

Rising health consciousness in the F&B sector is expected to increase opportunities for food and drink producers that can introduce healthy options in Qatar. The demand for organic food is steadily increasing in the country with a shift to natural ingredients and functional drinks for hydration, as the food-processing industry becomes more segmented. (Gulf-Times, 2016).

The development of new malls & hotels would significantly contribute to the opening of new F&B outlets. Approximately 16 new malls and two real estate developments in Lusail and Msheireb are scheduled to commence operations within the next few years giving rise to an estimated 1,870 new F&B outlets (Food & Beverage Services Sector in Qatar, 2018).

Technology is also having an impact on the F&B sector. New technology is improving both the convenience and experience aspect of dining out, e.g. apps designed to order and pay for food in advance will boost F&B sales. On the other hand, growth in home delivery and 'click & collect' services will reduce the amount of space required for company operations (Upa.it, 2017). The young urban population would mean that the role of technology in accessing food & beverages options is likely to assume greater significance in future.

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