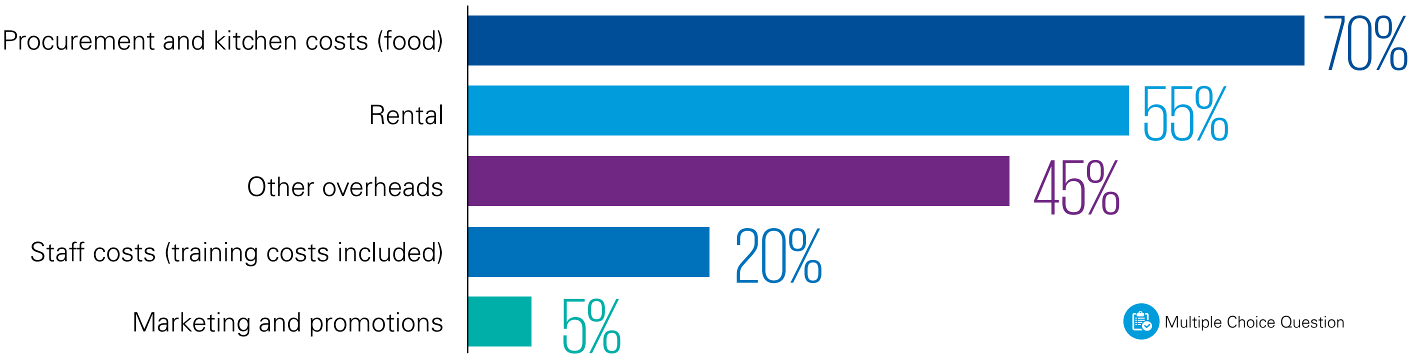
What are the key areas of cost optimization for your business?



Managing margins

Cost optimization and operational improvement continues to be top of mind for operators. In today's market, managing costs has become top priority. The true test is managing costs without affecting food quality or customer experience.

Operators are constantly on the lookout for better quality and lower cost products: the right procurement plan improves the bottom line. While there is a risk of focusing solely on cost reduction, many operators seem to be agile in navigating deals with vendors to manage costs.

Beverage sales are an important component of F&B revenue. It not only adds to overall returns but also tends to offer higher margins. Cafés and licensed outlets therefore benefit more than others from beverage sales.

Rentals have been a major focus and cause of concern. Due in part to increased competition and changing consumption patterns, many operators do not see the same outlet-level activity as they did in the past. Unfortunately, this is not reflected in rental costs—particularly in prime locations. Operators are also increasingly re-evaluating the size of their outlet(s) and revenue per sq. ft. is closely tracked—larger 'boxes' are only being considered if they add significantly to the concept and revenue potential. Furthermore, operators are hopeful that commercial rental regulations will be introduced in the coming years to address concerns around rental transparency, escalations and other charges/fees.

Staffing is key, as a restaurant's success is largely dependent on service levels. While operators have optimized employment to some extent, they have been careful not to make drastic changes. The challenges around skill gaps and lack of staffing solutions on an hourly basis limit the opportunity to optimize through temporary staffing, unlike other global F&B destinations.

Overhead costs have been another key area for optimization. Marketing budgets have taken a hit, and businesses have sought to manage activities internally. Additionally, it is widely understood that the UAE has one of the highest credit and debit card transaction fees globally; several businesses expect the government to take steps to lessen the burden of such transaction fees.

Corporate overheads are also being revisited, leading to leaner operating structures, and overheads are being reviewed based on their revenue enhancement potential.

KPMG view

While there are opportunities across all formats, casual and premium dining seem to have been most affected by recent market conditions. That said, well-executed concepts continue to do well.

The economics of the F&B industry are being put to the test—now more than ever, as the generally subdued topline growth has increased pressure to meet bottom-line expectations. It is important for all stakeholders in the eco-system to work together to bring the F&B sector back on the growth track.

Given current market dynamics, landlords could consider the impact of rentals on F&B businesses. In the long run, this could be a win-win proposition for operators and landlords. Regulations around commercial rentals would also help to bring transparency.

Considering the seasonality, higher adoption of temporary staffing solutions could help the F&B business model. This will require concerted efforts to create a support eco-system for skill development and shorter duration outsourcing contracts.