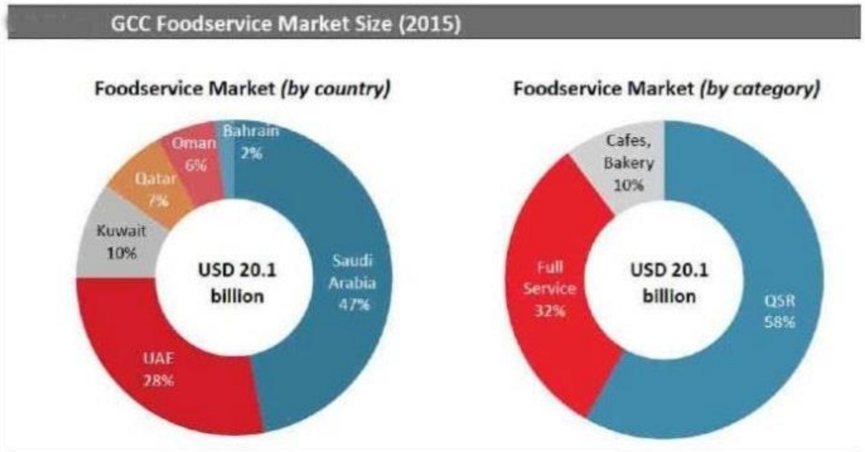
GCC food service market to grow to $28bn by 2020



Source: Al Masah Capital Research

JEDDAH — The GCC food service market was valued at $20.11 billion in 2015 and is expected to grow at a CAGR of 6.8% to reach $24.5 billion in 2018 and $28 billion by 2020, Al Masah Capital's report on "GCC Food Service Sector" revealed. Saudi Arabia led the region, with total foodservice sales of $9.5 billion, accounting for nearly half of the GCC market. The UAE was the second largest contributor, with total sales of $5.6 billion generating 28% share in the region, followed by Kuwait ($2 billion), Qatar ($1.4 billion), Oman ($1.2 billion) and Bahrain ($0.4 billion). Even though the UAE makes up only 17.5% of the GCC population, 28% of the GCC food-service market takes place within the nation. This disproportionately larger share of consumption is attributed to higher traffic of tourists that pushes up the food services consumption every year.

Fast food or Quick Service Restaurants (QSR) remain the largest segment, accounting for 58.2% ($11.7 billion) of the GCC food services market in 2015, followed by Full Service Restaurant (FSR) with 31.5% market share ($6.3 billion), and Café & Bakery segment with 10.3% share ($2.1 billion). Notably, the FSR segment, which includes fine and casual dining, is nearly half of the QSR market.

While the concept of fine dining is still confined to affluent class and has not grown drastically in the last few years, the casual dining segment observed growth with the entry of new brands almost every year. Chained and specialist coffee shops are growing in popularity and exhibited strong growth during the last 3 years, a CAGR of 4.5%. Main participants in this segment include Starbucks, Tim Hortons, Costa Coffee, Caribou, Second Cup and Gloria Jean's.

Saudi Arabia, with a market size of $5.1 billion in 2015, was the region's largest QSR market (43.8% share in GCC market), followed by UAE ($3.5 billion). American chains such as McDonald's, KFC, Burger King and Hardee's dominate the region›s QSR market.

The report said the increase in demand came despite sluggish economic conditions, adding that the growth will be largely driven by a ballooning middle class and increased penetration by international and local brands.

With the region's overall food consumption expected to have reached 48.1 million metric tons in 2016, the GCC is projected to build a strong brand identity in the food services space and is likely to continue strengthening its foothold in coming years.

Al Masah Capital pointed that that despite an economic slowdown in the GCC, private equity players have clearly preferred to increase their investment focus in the food services sector amid rising volatility and decline in oil prices since 2014.

The report further said the fast food segment grew by 7.4 percent, and is expected to continue its dominance in the market followed by the full service restaurant segment, which grew by 6 percent.

Cafés and bakery segments, whose sales remained relatively subdued, with an annual growth rate of 7.5 percent between 2012 and 2016, are also expected to grow at around 3 percent to reach $2.75 billion by 2020.

In the UAE and Saudi Arabia especially, governments are heavily investing in the hotel and retail spaces, to turn the region into a hub for hospitality brands, a move that will ultimately have a positive effect on the food services sector.

According to the report, trends that are likely to accelerate the food service sector growth include a rise in demand for healthy and organic food. This is mainly due to a rising rate of lifestyle-related diseases such as diabetes and obesity in the GCC as well as increased attention on health issues.

More players are now increasingly expanding their menus to also include healthier food options to cater to this expanding segment, and thus widening their revenue base as they attract more customers. — SG