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CRISIS? What crisis?

Here are some strategic management tools to beat the recession

As you may have read, things are tough in Dubai. Sure, some of the hype is worldwide press hysteria and adegree of schadenfreude enjoying the outcome of Dubai's excesses. Nevertheless, $100 billion on your credit card is going to take a while to pay off.
How is the hospitality sector performing? Hotel occupancy in both Dubai and Abu Dhabi is down as is room rate. Abu Dhabi has retained some buoyancy from the Grand Prix effect but 10 hotels have opened in the last month which is bound to have a negative effect on the city's rate and occupancy. Restaurants are reporting 20-30% lower revenues accentuated by a weaker dollar affecting the cost of bought-in goods and depleting margins. All restaurants have felt the decline in revenue from the top end to foodcourts. Not only have the tourist numbers declined but also, the expats and UAE nationals seem to have 'tightened their belts'. So how is the restaurant sector in the UAE responding to the reduction in revenue? By discounting of course!!!! A quick look thru Time Out magazine will show you heaps of promotions all written in dodgy English and offering nothing but cheesy-cheap campaigns.

So what can operators do in recessionary times?

I am lucky to be one of the survivors of at least three UK recessions; the first of which in 1979 launched the phrase 'Crisis? What Crisis?' when Prime Minister James Callaghan allegedly ignored the state of the nation during the 'Winter of Discontent' with multiple strikes from trash collectors to undertakers. It was also the name of a Supertramp album but

that's another story… The recessions in 1981 and 1990 were both fashioned by Margaret Thatcher and had a severe effect on retailing. I recall that the restaurant sector initially responded by doing what Dubai is doing now; discounting. This didn't work and so the restaurateurs turned to an area which wasn't a 'quick fix' but which would have a more lasting effect; the supply chain.
After 1990, restaurant groups began to re-engineer their supply chains releasing the value 'locked -up' in antiquated purchasing organisations and processes. Supply chain consolidation was borne out of the recession; for the first time restaurant groups and contract caterers leveraged their volumes and frequently joined purchasing consortia who bought on their behalf. This consolidation helped improve margins and delivered a sustained benefit to restaurants and in particular contract caterers. Beneficiaries of purchasing consortia included large groups such as Hilton and Thistle Hotels as well as Compass and Sodexho. Other methods used during the lean years included Menu Engineering where menu dishes were reviewed for cost efficiency. Sourcing of products also became more widespread with chicken from Brazil and beef from Africa although we are now experiencing the environmental backlash of this global purchasing.

There is a view that recessions are necessary evils; they 'clear out' the weaker operators and drive the survivors to extract greater margins from diminishing revenues. Another strategic management tool which grew out of the lean 90's was labour scheduling where for the first time, operators were using software to align their payroll to their demand (check out www.eproductive.com/eps).

Another newborn in the lean years was merger and acquisition (M&A) in the hospitality sector. The recessions made both listed and family-owned companies vulnerable to acquisition or irresistible for a merger. M&A has become the single most significant feature of the restaurant sector in the West over the last 10-15 years. There have been a huge amount of acquisitions in the UK including names such as Pizza Express, Café Rouge, Browns, Wimpy, KFC and even top-end brands like the Ivy. M&A is still a feature in the West and yet it remains a rarity in the Middle East and here.

The impact of the recessions also led to an increase in creative accounting techniques such as securitising assets based on projected earnings. The securitising of assets was probably the one major driver of widespread consolidation of UK pubs in the 90's.

So could the three strategic tools have application in the Indian sub-continent?

Supply Chain Engineering is clearly an opportunity when you consider the scale of the country and the relative fragmentation of the Indian restaurant groups. It would be relatively straightforward for a purchasing consolidator to leverage economies of scale. Have food distributors in India considered this? They should!
Labour Scheduling is arguably less of an opportunity in a market where payroll costs are lower than international benchmarks. Nevertheless, I remain amazed at how a restaurant owner can manage over 20% of his/her cost base without using any analytical tool other than listening to a Restaurant Manager tell him how many people he/she needs on a shift! M&A is a huge opportunity in India althoughI suspect that the restaurant sector still has some exponential growth to come before operators start to think of buying or merging with each other.

As for Dubai, it's still a case of Crisis? What Crisis?

Restaurant and hotel groups in the UAE need to wake up to the opportunities from the supply chain, payroll and M&A.
After all, every dollar saved in margin is equivalent to gaining at least 3 more dollars in revenue. Stop the discounting and start managing!

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