Trends in the MENA hospitality industry: a changing landscape
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Executive summary

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About this report

The report summarizes the key themes and responses from hospitality sector leaders, who were part of EY’s first annual Hospitality Roundtable event hosted in March 2017.

EY surveyed representatives from the hospitality industry, including hotel owners, operators, developers, consultants and other market contributors. The event, and a brief survey preceding it, focused on key industry trends, investments, challenges and disruptors.

All respondents and participants’ names have been kept confidential, and their responses were only used in combination with others to protect anonymity. EY would like to thank those who attended our Dubai Hospitality Sector Roundtable event, and took the time to complete the pre-event survey.

If you have questions about the survey or the Hospitality Sector Roundtable, please contact Maya El Assad at maya.elseaad@qa.ey.com.
Despite the slowdown in the economy due to the oil price decline and volatile regional conditions, the Middle East and North Africa (MENA) region continues to grow. The regional hospitality industry remains an attractive investment potential for investors.

The changes in consumer preferences and the increasing use of technology are radically changing the industry. The market is also expecting to see an increased shift in investment activities and strategies over the coming years.

This report provides readers with a detailed view on the changing landscape in the hospitality industry based on primary and secondary research with industry stakeholders. It probes into investments, market trends, challenges, disruptions and the outlook of the hospitality sector.

Key findings

1. Evolving consumer preferences and technology are the major trends prevailing in the hospitality industry.
2. Deployment of experienced hosts is the most leveraged strategy for driving personal engagement at properties.
3. Evolution into alternate markets is emerging as the most preferred investment strategy to maximize investments.
4. Budget and mid-scale segments have emerged as one of the most preferred investment categories.
5. Online travel agents were found to be the most critical disruptor to the hospitality business.
6. The sharing economy is not considered as a major threat to the hospitality business in the region.
Though the hospitality industry witnessed a challenging year in 2016 – in both development and operations – the market remains healthy with strong investment potential. This section focuses on key trends in the hospitality industry covering investment activities and strategic stakeholder focus.

A. What are the prevailing trends in the MENA region?*

- Attendees’ and respondents’ rankings indicated that evolving consumer preferences is the major trend prevailing in the MENA hospitality industry, followed by technology.
- The rise in tech-savvy guests is increasingly leading to the use of digital platforms by hotel operators in order to connect with guests and enrich their experience.
- With technology taking an increasingly larger role in hospitality operations and guest interaction, it has become increasingly important for owners and operators to ensure the safety of their guests and assets.
- Consumer relationship management and brand reputation are now more important to hospitality companies than ever before. With a single cyber-attack potentially costing millions of dollars, it is critical to put measures in place to prevent cybersecurity breaches and, in the event of an attack, be prepared to quickly resolve it.
- Some of the most significant risks are not simply external threats and reported incidents, but rather internal threats and unnoticed or unreported attacks. Key mitigation strategies to manage these risks include continuous 24/7 monitoring and cyber analytics, regular training to build awareness across the organization and reduce the likelihood of human error, robust infrastructure protection, and efficient access management systems.

Source: EY
*Percentage may not add up to 100% since only top three ranks are considered.
Note: Ranking is based on level of importance with Rank-1 being the most important and Rank-5 being the least important. Top three ranks are considered for analysis.
An effective cybersecurity strategy involves continuous awareness and training on information security.

1. Workstation and device security
2. Physical security
3. Social engineering
4. Malware
5. Data protection and privacy

Focus on essential topics

Conduct in-class training and/or Self-learning

Employees: desk, restaurants, operations, etc.
IT and helpdesk staff
C-suite and senior management

Assess and evaluate the results

Present to top management
B. How is your current hospitality portfolio performing?

More than 43% of the respondents indicated that performance of their hospitality portfolio is exceeding expectations. However, participants observed regional unrest and a slowdown in the economy as major threats to the hospitality industry.

C. Which of the following describes your investment strategy in 2016? Is this changing for 2017?*

- Conversations with operators, as well as survey results, indicated that their focus in 2017 was to engage dynamic marketing strategies that would ensure smooth operations, due to the market slowdown.
- Owners on the other hand remained bullish, with several continuing to develop, while a smaller group opted for a wait and see strategy.
- With several owners identifying niche pockets of opportunity in the market, there was also increased interest in buying properties with 43% in 2017 as compared to 14% in 2016.

*Percentage may not add up to 100% as respondents choose multiple choices.
D. To maximize your hotel investment, which of the following strategies are you considering over the next 12 months?*

- Alternative markets or submarkets: 57%
- Operator review/management company switch: 43%
- New product segments or third-party brands: 43%
- Developing your own brand: 14%

Source: EY
*Percentage may not add up to 100% as respondents choose multiple choices.

• In an increasingly competitive hospitality market, with an influx of new supply coming online, it is critical to optimize asset value across the hotel life cycle. There are a number of key considerations to ensure optimal planning, development, operations and exit stages, and thereby improve competitive positioning and operational performance. A proactive asset monitoring strategy will not only help align interests among different stakeholders but also optimize investors’ portfolios.

• More than half of the respondents viewed alternative markets as an investment strategy to maximize their hotel investments.

• Many markets in the MENA region have started to mature and investors are careful about new investments due to decline of RevPAR across certain markets in the region.

Trends in hotel design

- The MENA market is saturated with traditional luxury and upscale products, with a limited diversity of concepts seen within the region as compared to the global hospitality landscape. Looking ahead, differentiated concepts that align strategically to their submarkets and capture a unique niche are becoming key for success.

- ‘Dry hotels’ with an Arabesque spirit, Instagrammable spaces, cross-functional lobbies becoming meeting and work spaces for residents and guests alike, and co-living concepts that integrate with the community are just some of the trends that are taking shape around the globe.

- Traveller profiles are also evolving, and hotels are shifting focus to accommodate the needs of rising numbers of solo travellers (often women) and Bleisure (Business and Leisure) travellers. In the Gulf Cooperation Council (GCC) in particular, soft branding is on the rise, with owners electing to develop their own unique brands while partnering with established operators.
Industry focus

The hospitality industry has constantly evolved with the changing consumer preferences and competitive landscape. This section focuses on investment and strategies that the hospitality businesses in the region plan to adopt with the changing industry scenario.

A. Which of the following investments has the greatest return on guest satisfaction?*

<table>
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<th>Rank</th>
<th>Percentage</th>
<th>Experienced host</th>
<th>Service personalisation</th>
<th>Mobile apps</th>
<th>Social media</th>
<th>Others</th>
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<td>29%</td>
<td>14%</td>
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</tbody>
</table>

*Percentage may not add up to 100% since only top three ranks are considered.

Note: Ranking is based on level of applicability with Rank-1 being the most important and Rank-5 being the least important. Top three ranks are considered for analysis.

- Guest satisfaction remains the paramount aspect of the hospitality industry. Respondents agreed that the deployment of experienced hosts to drive personal engagement at properties is the most critical factor to improve guest satisfaction.

- Globally, operators are increasingly looking for a competitive edge in order to build loyalty through personalization and anticipating guest needs. In an effort to improve profitability, operators are also employing pricing strategies that maximize room revenue, while also increasing guest spending on Food and Beverages (F&B), spa, etc.

- Operators employing data analytics put themselves in a better position to do just that, relying on data about consumer behaviour, and other patterns such as impact of events, flight disruptions, etc., gathering information from guest loyalty programs and a multitude of online sources such as public social media accounts.

- The hospitality industry captures enormous volumes of diverse data sets. The use of data analytics to inform real time decisions can transform the way hospitality businesses are run, enhance the guest experience, and drive top and bottom line results. Thus, having an effective data-driven business strategy is critical for the success of hospitality companies.

- Some of the key reasons to maintain a high-quality data strategy include increased efficiency, enhanced customer satisfaction, enabling informed decisions, and cost savings. A lack of knowledge, skills and dedicated resources were identified as some of the key internal challenges to achieving this, while security and governance risks were some of the external challenges faced by corporations in managing their data effectively.

- A survey of attendees indicated that the region is relatively behind when it comes to their sophistication on data strategy. Organizations do not have well defined data-specific roles, such as a Chief Data Officer, do not regularly monitor data quality, or have systems in place to constantly monitor, analyse and use data to their advantage.
Some of the main challenges to data quality are described below:

**Internal Challenges**
- Lack of knowledge/skills
- Lack of human resources/employees
- Time-to-value expectations
- Lack of/underperforming data quality tools
- Lack of budgets/funds
- Justifying data quality investment/ROI

**External Challenges**
- Data capture and validation
- Security/governance risks
- Data profiling/discovery
- Managing the volume/reach of data
- Managing the variety/diversity of data
- Data standardization/select cleansing

B. Numerous new entrants and homegrown brands have been announced. What is your opinion on the number of new hospitality players entering the market?

- More than half of the respondents believe that there is a right mix of new entrants entering the market as guest preferences are always changing. Nonetheless, a large number of respondents believe there are too many brands entering the hospitality landscape. This further underscores the idea that brands should continue to evolve and differentiate to maintain and build brand loyalty.
- New entrants and homegrown brands are also viewed to have dual impact on the hospitality market, as they tend to improve quality and bring out new offerings. However, they add more inventory to the existing hotel supply that may affect overall performance of hotels.

Source: EY
C. Which hospitality products have the strongest outlook for investment in 2017 in the MENA region?*

- Budget products
  - Percentage: 86%

- Lifestyle products
  - Percentage: 57%

- Select-service products
  - Percentage: 43%

- Serviced apartments
  - Percentage: 43%

- New niche brands
  - Percentage: 29%

- Branded residences
  - Percentage: 14%

- Dry products
  - Percentage: 14%

- Ultra-luxury products
  - Percentage: 14%

- Luxury products
  - Percentage: 14%

Respondents identified budget products as an investment priority, indicating that this would be the preference of the customer base in the short term.

Major established markets, including Dubai, Abu Dhabi, Jeddah, Riyadh and Doha, are experiencing the need for additional budget accommodation, depicting the investment potential in the budget product segment.

A budget-conscious middle class population and cost cutting measures by corporates have created an increased demand for more mid-range hotels in the Middle East region. There are over 27,000 mid-scale rooms under contract as of March 2017.³

Sources:
D. Do you expect your hospitality investment activities to increase or decrease in 2017?

- **29%** More than 10% higher
- **57%** Up to 10% higher
- **14%** No change

Source: EY

Despite the decline in oil prices and economic slowdown, the MENA region continues to be an attractive investment destination. Among the respondents over 29% expect hotel investments to increase by more than 10% in 2017, compared with 2016.
As new technologies emerge, the regional hospitality industry continues to evolve in order to improve customer experience, build competitive edge and grow business. This section focuses on critical disruptors in the hospitality business with a focus on the impact of shared economies.

A. Which disruptors are most critical to the hospitality business?*

Despite the prevalence of online travel agents (OTAs) for a considerable amount of time, they topped the list of most critical disruptors to the hotel business. The OTAs allow customers to avail the best hotel deals, decreasing the probability of loyalty to a single hotel brand.

Booking.com, TripAdvisor and Expedia.com are the leading OTAs in the Middle East region. The rising usage of internet through smart devices has forced hotel operators to tailor their strategies accordingly.
Industry disruptors

B. Which are the most difficult disruptors to mitigate against for your organization?

- 57% of respondents indicated OTAs as the most difficult disruptors to mitigate.
- 29% of respondents stated mobile technology as the most difficult disruptor to mitigate.

C. Do you view the “sharing economy” (e.g., Airbnb) as a threat to your properties' performance?

- Majority of the respondents believe that sharing economy platforms, such as Airbnb, do not create a major threat to their hotel business in the region. Survey respondents and participants attending the event indicated that such platforms remain bigger threats for hospitality products in the midscale and budget segments.
- However, as more operators start to invest in budget products (as indicated by the survey results), the sharing economy will likely be viewed as a threat by more respondents going forward.
- It will be important for hoteliers to work with legislative bodies and other industry players, including sharing economy platforms to work to address demand from diverse target markets, to ensure healthy competition rather than cannibalization.

Source: EY
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The MENA practice of EY has been operating in the region since 1923. For more than 90 years, we have grown to more than 6,000 people united across 20 offices and 15 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

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