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Digital Transformation in Kuwait's Hospitality Industry



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About Kuwait Foundation for the Advancement of Sciences (KFAS)

The Kuwait Foundation for the Advancement of Sciences (KFAS), a private non-profit organization, established in 1976 by an Amiri Decree under the direction of the late Amir of Kuwait, H. H. Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah with a vision to create and nurture a thriving culture of science, technology, and innovation for a sustainable Kuwait.

KFAS operations are funded by contributions from the private shareholding companies of Kuwait as part of their corporate social responsibility. The contributions currently amount to one percent (1%) of their annual net profit.

KFAS mission to “stimulate and catalyze the advancement of Science, Technology and Innovation (STI) for the benefit of society, researchers, and enterprise in Kuwait,” continues to be at the heart of all the Foundation’s activities and plans.

Since its creation, KFAS has successfully established a number of dedicated research and educational centers of excellence in Kuwait. These are: The Scientific Center, Dasman Diabetes Institute, Sabah Al-Ahmad Center for Giftedness & Creativity, and Jaber Al-Ahmad Center for Nuclear Medicine and Molecular Imaging. These centers are recognized as world-class facilities and pioneering scientific research institutes. In addition, KFAS has established the Advancement of Sciences Publishing and Distribution Company, the Foundation’s publishing arm.



About Arabnet

Arabnet is a leading event, insights and innovation program organizer focused on tech business and innovation in the MENA region. We organize major conferences for the tech sector in Dubai, Riyadh, Kuwait and Beirut; publish news and analysis of the sector in our online news portal and produce original research and reports focused on the sector; and organize custom-tailored innovation programs for corporates and governments.

The insights and findings in this publication are based on in-depth desk research, as well as one-on-one, semi-structured interviews conducted with the following entities:

Corporates

Amin Mohamed

Deputy CEO, Kout Food Group



Duha S. Shubair

Manager - Technology and Digital Transformation, Ali Abdulwahab Al-Mutawa Commercial



Hamad Al Sayer

CEO, Al Sayer Franchising



Garry Walsh

CEO, Mezzan Holding



Basel Talal

Regional Director - Saudi Arabia, Kuwait, and Levant, Radisson Hotel Group



Startups

Gregor Amon

Co-Founder and Managing Partner, Hotel Data Cloud



Ahmad Al-Zaini

Co-Founder and CEO, Foodics



Noora Al Askar

Founder and CEO, Nutribox



Ali Al Ebrahim

Founder and CEO, COFE App



Abdullah Alsubaie

Co-Founder, Ngwah



Wael Orabi

Co-Founder and CTO, YACOB



Samer Tarazi

Founder, EILA



Executive Summary

The hospitality industry is an umbrella term that denotes a number of sub-sectors within the services industry which provide services linked to accommodation, food and beverage services, leisure and entertainment, and travel. The findings in this publication are based on interviews with corporate senior executives in the hotels and food and beverage (F&B) sectors in Kuwait, in line with the definition of hospitality industry by the Cambridge Business English Dictionary.¹

The hospitality industry is undergoing a pivotal digital transformation. In the hotel sector, the full customer journey has been digitized; from researching venues and destinations to making price comparisons and purchases, tens of digital touch points now influence booking decisions. In the food and beverage (F&B) sector, dine-in is on the decline while online ordering and delivery are increasing in popularity; both trends predate the advent of Covid-19 but have been bolstered by the pandemic.

Emerging technologies are transforming how industry establishments are providing services. Among hotels, the Internet of Things (IoT) is enabling process automation, and the creation of more customer-centric offers, and personalized in-room experiences. Artificial Intelligence (AI) is playing a key role in understanding customer behavior and predicting purchasing decisions. AI-powered chatbots, popular applications of machine learning, are also enhancing hotel cost-revenue analyses and customer experiences. Augmented and Virtual Reality (VR) have demonstrated positive impacts on customer experience by allowing guests insights before they book and reducing consumer anxiety.

In the F&B sector, data and analytics are being leveraged to adapt to emerging eating trends and deliver food customized to individual preferences and health conditions; they are also driving personalized, value-driven loyalty programs that are critical to increasing sales and retaining customers. At the same time, “cloud kitchens” are on the rise; they represent a cost-effective solution for restaurant expansion by replacing the need to open physical stores in so many locations.

Kuwait is the third largest F&B market in the MENA region, and the market with the fastest forecasted growth rate. To keep up with changing consumer behavior and emerging technology trends, Kuwaiti F&B establishments have concentrated their efforts on digitizing their business-to-consumer (B2C) sales channels. While e-commerce uptake has been high across F&B generally, it has been slower for fresh groceries than other verticals (FMCG, pharmaceuticals, etc). F&B establishments have encountered several challenges related to digitization; these include technical challenges like locating vendors and integrating technology and managerial challenges like building internal capabilities and handling resistance to change. F&B establishments are looking for ways to capitalize on emerging dietary trends such as flexitarianism, a semi-vegetarian diet that encourages the consumption of more plant-based foods at the expense of meat.

At the same time, Kuwaiti hotels have seen the advent of immersive digital solutions. Hotel chains have sought to attract customers by bringing them closer to real-life experiences. They have done so by providing information on surrounding venues and attractions, allowing customers to explore their hotels through multiple webcam feeds, and mapping hotel grounds to allow users to move around them virtually with their smartphones. They have also undertaken efforts to digitize their event hosting capabilities and to offer virtual meetings and events.

The GCC region is home to a range of diverse technology startups operating in the hospitality industry. Their services and products include Point-of-Sale (POS) systems, comprehensive cloud-based restaurants management platforms, chatbots, ordering apps, online marketplaces, nutrition and health planners, and backend applications for hotels. Startups have exhibited a strong belief in the importance of building technology in-house as it allows them to react quickly in a fast-changing industry. Furthermore, owning the technology presents startups with opportunities to expand into sectors outside the hospitality industry.

Looking forward, establishments in the hospitality industry should focus on catering to an increasingly large proportion of tech-savvy users who expect personalized services and rewards for their loyalty. As such, establishments need to develop a strong ethos of customer-centricity, deliver flawless experiences, and stay ahead of the latest technologies transforming the industry.

Endnotes

- 1 Cambridge Business English Dictionary; "Hospitality industry" (2020)

Introduction

The hospitality industry was in the midst of a sweeping digital transformation prior to Covid-19. This transformation was a bid to stay relevant to a growing number of tech-savvy users.

Among hotels, digital technologies were high on the list of IT spending priorities before the pandemic. A 2018 survey by Alcatel Lucent Enterprise² identified mobility, digital engagement, and connectivity as the main focus areas for surveyed hotels undergoing digitization.

Similarly, in the F&B sector, which includes restaurants, groceries, and food products and services companies, digital transformation had already triggered significant changes in how companies operate. Online ordering was experiencing stellar growth pre-Covid-19. Frost & Sullivan³ estimated the industry to be worth \$82B in gross revenue globally in 2018. Through digitization, F&B establishments sought to improve their operational efficiency, maximize asset value, and reduce energy consumption and waste.

Grocers were also looking to leverage digital platforms and e-commerce for growth, but uptake had been slow: Nielsen found that a mere 4% of grocery sales in the US were made online in 2019.⁴ In March of last year, the e-groceries market was estimated to be worth \$200M in the GCC and Egypt, which amounted to less than 1% of the total e-commerce market.⁵

Perhaps no industry has felt the repercussions of the coronavirus pandemic more severely than the hospitality industry. Research by McKinsey has suggested that the hotel sector will not achieve a full recovery before 2023.⁶ The pandemic and resulting prevention and containment measures have also had a profound and long-lasting effect on the F&B sector. In the Middle East, restaurant establishments saw visits drop more than 40% from February to March 2020⁷, with operations shifting increasingly to drive-thru, take-out, and, most notably, delivery services.

On the other hand, the outbreak has been a boon for grocers and food product businesses as more people cook at home and purchase groceries online. Since the outbreak, food delivery service providers Talabat, Deliveroo, and Zomato, among others, have started offering grocery delivery services, while Dubai-based grocery delivery platform InstaShop was acquired by German restaurant delivery company Delivery Hero in a deal that valued the company at \$360M.

As the world adjusts to new realities, digital technologies will increasingly transform how the Food & Hospitality industry operates and develops.

Endnotes

2 Alcatel Lucent Enterprise; "Hospitality Digital Transformation Survey" (2018)

3 Frost & Sullivan; "Future of Global Online Food Delivery Services Market, Forecast to 2025" (2019)

4 Nielsen; "Fresh and Focused: The U.S. Retailer Path to Winning Back Brick and Mortar" (2019)

5 Wamda Research Lab; "Online Grocery Retail in Mena report" (2019)

6 McKinsey & Company; "Hospitality and COVID-19: How long until 'no vacancy' for US hotels?" (2020)

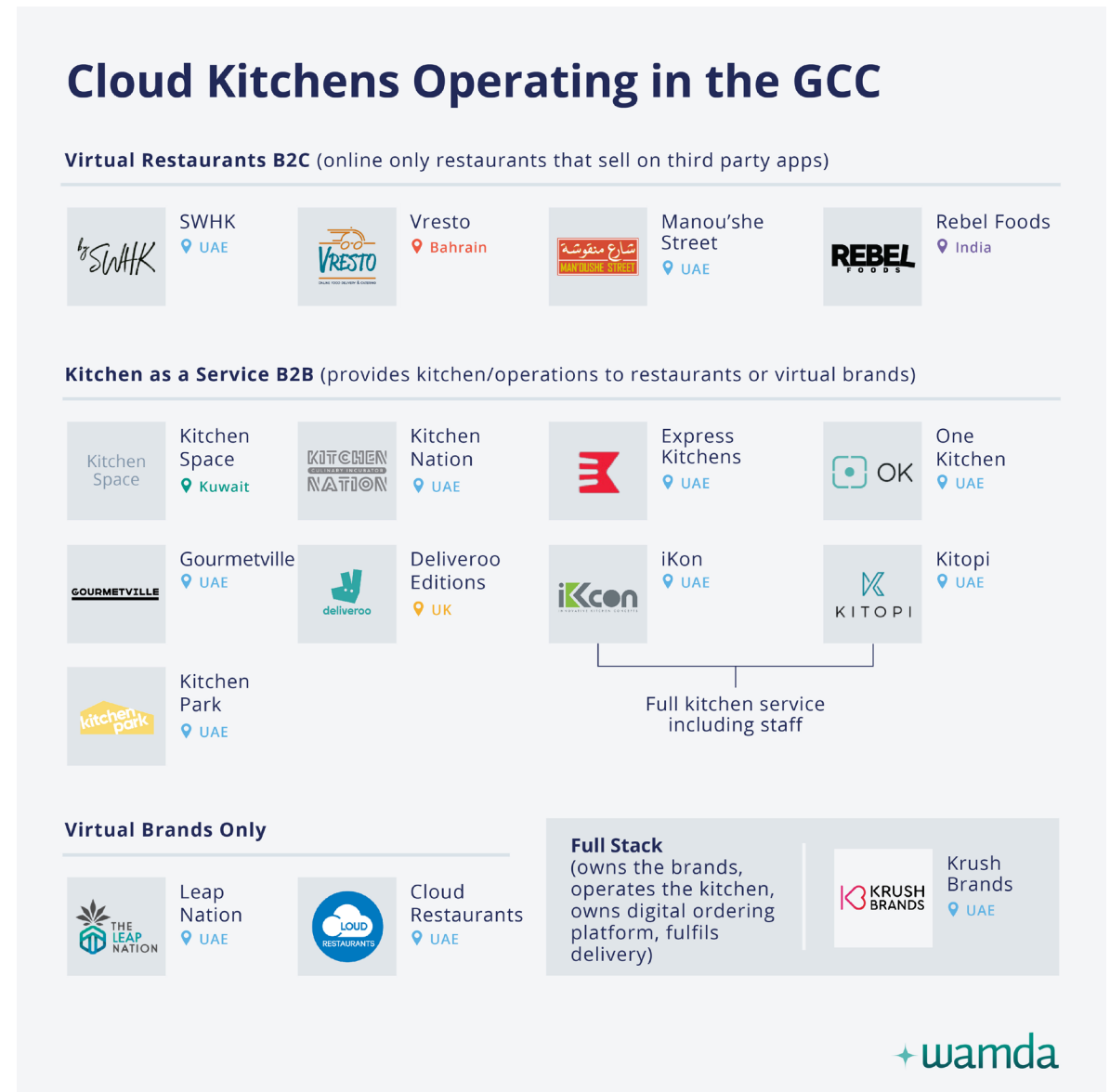
7 Aislelabs; "How the Food and Beverage Industry is Responding to Coronavirus" (2020)

Hospitality Technology Trends

Digital disruption in the hospitality industry is well underway; food establishments and hoteliers increasingly look to implement the latest digital tools to improve product and service quality, revenues, cost efficiency in operations, and customer experience.

In the **F&B sector**, trends ranging from online ordering and cloud kitchens to inventory optimization and customized food are changing how food is produced and delivered.

Ordering via mobile applications is one of the top trends in the F&B space. Frost & Sullivan⁸ anticipates that the global online food delivery services market will swell to \$200B by 2025. The explosion in online ordering has given rise to **cloud kitchens**: shared facilities built specifically to produce food for delivery for multiple F&B brands simultaneously. Cloud kitchens allow restaurants to reach customers in locations where the cost of opening a physical branch might not have been financially sound. They effectively also allow F&Bs to test new geographic markets at lower risk.



With fewer dine-in visits taking place, brands now have to figure out new ways to build emotional connections with consumers.

Restaurants are already leveraging data to deliver **customized food** to their clients based on previous online and offline interactions. These interactions are used to build a rich customer profile that takes into consideration personal preferences and allergies. The ever growing flow of customer data is also being used to create **personalized, value-driven loyalty programs**. Such pro-

grams boost sales and increase average bill values and guarantee repeat visits. They generally result in good reviews, positive word-of-mouth exposure on social media, and restaurant referrals.

Data and AI are also powering **inventory optimization**. AI systems can study a range of factors like customer preferences, social media engagement, brand mindshare, product shelf life, global F&B trends, and even weather conditions to maintain a good inventory and prevent waste. Inventory optimization technology does have its limitations however. Firstly, training artificial intelligence requires huge amounts of data, which may not be accessible to smaller establishments. Secondly, integrating AI into a company's system can be a challenging undertaking, particularly for companies that run large ones.

In the **hotels sector**, the advent of digitally savvy travelers has shaken the customer journey to its core. According to McKinsey & Company, the average purchase journey for a single hotel room involves 45 touchpoints, including visits to search engines and the sites of intermediaries and suppliers. These can involve multiple devices and take place over a 36-day period.⁹ As such, hoteliers have sought to engage, acquire, and retain travel consumers through several digital touch points, all while working to ensure a hyper-personalized and seamless experience during their stay.

Smart hotels make use of Internet of Things (IoT)-enabled devices to synchronize customer preferences with room experience. Lighting, room temperature, favored bedding type, and streaming media preferences can all be calibrated seamlessly, creating the feeling that “the room knows you,” as Hilton CEO Christopher Nassetta put it at the Skift Global Forum. Smart devices can also help hotels reduce their bills; room temperature sensors, for instance, can be used to optimize energy consumption and reduce cost by as much as 20%.¹⁰

Using **artificial intelligence**, resorts can tell if a guest is inclined to purchase a spa treatment or a city tour based on their search history and tailor their offerings. Additionally, restaurants can welcome a visitor with a glass of their favorite beverage based on past orders.

AI is also powering chatbot assistants. Although chatbots today have limited capabilities -- namely handling generic inquiries -- they can still reduce the need for direct human interaction and save time for customers and costs for hotels. Having a chatbot can have a vital impact; hospitality technology provider Intelity found that the quality of a hotel's digital tools influence the booking decisions of 70% of travelers.

Smart concierge apps allow guests to buy amenities, order food, check in and out, and receive personalized information about their surroundings on their mobile devices. Guests are able to perform a variety of actions on their smartphones, including automated check-in and check-outs. Apps more broadly are key to capturing last-minute bookings, 70% of which are made on mobile devices according to Intelity.

Virtual reality is also being leveraged as a marketing tool to attract tourists to hotels. A study on the impact of VR showed a statistically significant relationship between the relief of travel anxiety and the use of VR on a hotel website.¹¹

For the **hospitality industry**, cybersecurity is becoming a major risk and concern. Companies in the industry have large amounts of personal information, including financial information. Some have succumbed to breaches in the past few years. Among these was the global Marriott Starwood Hotels data breach of 2018, which exposed the data of up to half a billion customers.¹² Major security breaches can lead to irreparable loss of client trust, reputation damage, and even legal or financial penalties.

In this regard, **blockchain** technology offers a highly secure platform for storing and moving information. The International Data Corporation (IDC) estimated that worldwide spending on blockchain solutions reached \$2.7B in 2019, and projected that this figure would grow by 57.7% to reach \$4.3B in 2020.¹³ Using blockchain technology to build decentralized booking platforms allows hotels to directly connect with consumers and bypass Online Travel Agencies (OTA), thus removing from the equation the large commission fees that they collect.

Endnotes

Corporate Digital Transformation in Kuwait's Hospitality Industry

According to a 2018 report by MENA Research Partners, the F&B sector in the Middle East and North Africa region is expected to reach \$196B by 2021. Kuwait constitutes the third largest F&B market in the region after Saudi Arabia and the United Arab Emirates, and is expected to witness the fastest growth at 9.6% annually.

Kuwait's F&B sector has been largely driven by international chains. The country nonetheless hosts a number of leading homegrown F&B corporations, such as Americana (Kuwait Food Company), Alyasra Foods, and Al Homaizi Food Industries. More recently, Kuwait has developed its own successful brands and ventures, such as Talabat and COFE App, and has become home to the Middle East's first food vertical accelerator, Savour Ventures.

Channel Digitization

To keep up with the shift in consumer demand to online ordering, a number of Kuwaiti food businesses have focused on rapid channel digitization. One example is Mezzan Holding, a leading manufacturer and distributor of food, healthcare, and consumer products. Mezzan's food business line includes manufacturing, wholesale distribution, catering, and other food supply services. Mezzan has launched mobile ordering apps for several of its product lines including its entire food offering. However, uptake in digital sales of food products has been slow according to Mezzan CEO Garry Walsh. This is particularly evident when compared to some of Mezzan's other business lines like pharmaceuticals. While the company's online fast-moving consumer goods (FMCG) sales quadrupled in the last year, its online pharmacy sales grew so quickly that they came to represent ~18% of total sales within a year of launch.

Walsh attributes this discrepancy to the higher level of "emotional engagement" entailed in buying certain food products. "You need to feel the bread to know it's fresh; you want to see the meat to know it's fresh," he explains, "so across the world the emergence of e-commerce in food is slower than in non-food." Discrepancies are also evident between different food items. "We see a very speedy emergence of water delivery but less speedy [emergence] in the matter of fresh elements."

Kout Food Group is another company that has focused on channel digitization. It has developed mobile apps and websites for some of its brands, and added a sales channel for orders on Facebook. Kout was established in 1982. The company operates and manages global restaurant franchises, such as Burger King, Pizza Hut, Taco Bell, and KFC, with operations in Kuwait, the UK, and Iraq. It also offers catering services, import-export services of food-related items, and advisory services.

Kout is working on launching a holistic retention program by the end of 2021. It is also developing a number of digital solutions, including dine-in digital menus, app-based takeaway ordering, and low-cost, alternative channels (SMS and push notifications).

According to Deputy CEO Amin Mohamed, Kout's digital transformation started in late 2018 and has been targeted at improving both customer experience and internal operations. In mid-2019, the company launched an enterprise-wide AI project that sought to automate processes and improve decision making.

Additionally, the company has undertaken structural reorganization to accelerate digitization and has established a digital transformation and e-business department accountable for delivering on digitization goals. It has created new roles within the company and several of its employees have undergone mentorship and training programs in areas such as performance marketing, UX design, and e-commerce analytics.

The creation of specialized roles and augmenting of employee skill sets are core parts of the digitization process. They ensure that the workforce is fully aligned with the process' strategic objectives, and are essential to generating positive returns from it.

Challenges Aboard

Hospitality leaders are facing numerous challenges in their pursuit of digitization from technical hurdles to management issues.

This is true for Al Sayer Franchising whose digitization efforts were motivated by necessity. With over 270 stores in 10 countries, Hamad Al Sayer, CEO of Al Sayer Franchising, explains, "it's very difficult to monitor everything..so we realized that digitalization is a must to understand where we're going and have better communication." He highlights that technology challenges have

been a major obstacle. For instance, at the time of the interview, the company had not yet figured out how to integrate its Point of Sale system into the application it had developed.

Resistance to change has also been an issue within the company. Al Sayer cites the reluctance of certain call center personnel to promote the company app for fear of losing their jobs. "If somebody can't adapt, you have to change them and bring the right people in, which is what we did." As a result of these changes, productivity increased while costs dropped by almost 30%. "The train moved," he adds, "if you can't jump in, you are out." Resistance permeates even the upper echelons of the company. Initially, Al Sayer's idea to develop a dedicated coffee marketplace app did not generate any interest from the board; "they didn't see technology coming and that's a problem," he explains.

Al Sayer's sentiment is echoed by Duha Shubair, Technology and Digital Transformation Manager at Ali Abdulwahab Al-Mutawa Commercial (AAW). Speaking of digitization challenges, she says "resistance to change is the main one," and adds "I guess everyone does face it."

Shubair also notes that AAW has been struggling to find good technology vendors locally. "I think the Kuwait market is a bit limited in having vendors," she says. Shubair suggests that the company reached out to international vendors only as a last resort "because when you start a new technology, it's good to have them on the ground with you."

Shubair says that the digital transformation of larger endeavors all at once is especially difficult because it involves multiple stakeholders. "Every one of them had his own concerns and so, we came up with nothing," she adds. Success is rather best achieved in smaller increments. "We learn from our experience that the transformation should be done in small and centered processes," she adds.

A Holistic Approach

Al Sayer, on the other hand, is keen to emphasize the importance of taking a holistic approach to piecemeal digital transformation. He says “it’s about a holistic solution that has to be linked together, so it’s a formula that needs to be working everywhere because one mistake can cost you an arm and a leg. My dream is to have the whole company in an app.”

Al Sayer highlights the necessity of leveraging technology service providers to pursue digital transformation. “Technology is a wide space,” he comments, “but I can tell you that our operations are focused on cooperation with companies that fit our needs.” Al Sayer, however, displays an aversion to consultancy services. “It’s an error,” he exclaims, “because we’re trying to create something new and I don’t believe consultancy is right. They will give you a previous experience that will keep you within the market and not ahead of the market.”

Emergent Food Trends

Beyond digitization, innovation is also driving the creation of new food categories that are gaining momentum globally and have spread to Kuwait. Walsh describes Gulf consumers as well-traveled, cosmopolitan, and up-to-date with the latest global food trends. “You have people from all over the world here and you have people here who travel all over the world. So you see trends emerge here broadly concurrent with the ones that emerge in the US, whereas if you were in somewhere like Morocco or Tunisia they might be 5 years away.”

According to Walsh, one emergent food trend that will significantly impact the sector is flexitarianism. A flexitarian diet involves an increased intake of plant-based meals without the

complete elimination of meat consumption. In line with this, a number of companies that use technology to produce plant-based alternatives to animal products have gained rapid market traction. Two examples are the meat substitute company Beyond Meat and the bean-based egg substitute company JUST.

Mezzan has been following this trend closely, and the company’s future foods team - a team dedicated to spotting emerging trends in food consumption - has directly engaged some of these players. In December 2019, the company signed a distribution agreement with Beyond Meat. The agreement represents a trial for Mezzan. According to Walsh, “if that goes well, we will later install some manufacturing to supply the whole Gulf.”

Immersive Digital Environments

Immersive digital environments is one way digitization is shaking up the hotel sector. Radisson Blu Hotels have sought to create digitally immersive experiences for potential guests. To do this, the chain has installed webcams in its various hotels, allowing users to visually explore each establishment and its surroundings. Hotel premises have been digitally mapped so that users can virtually move around them in any direction on their smartphones. Information on nearby attractions, restaurants, and shops of potential interest to customers has also been incorporated into these experiences.

In the last quarter of 2020, Radisson Blu Hotels launched virtual and hybrid meeting solutions across MENA and partnered with communications technology company Zoom to create collaborative, virtual meeting spaces. In this regard, the company has employed machine learning technology trained to distinguish human speech from other sounds to ensure higher quality audio during events and meetings.

More broadly, hotels have been rapidly moving towards e-commerce according to Basel Talal, Radisson Blu's Regional Director for Saudi Arabia, Kuwait, and Levant. But e-commerce's "full potential is yet to be exploited." Talal remarks that while the adoption of mobile applications has been high among fast food companies and local food vendors, it remains limited among hotels in Kuwait. "Moving forward we definitely believe there is a lot of space to grow within e-commerce," he concludes.

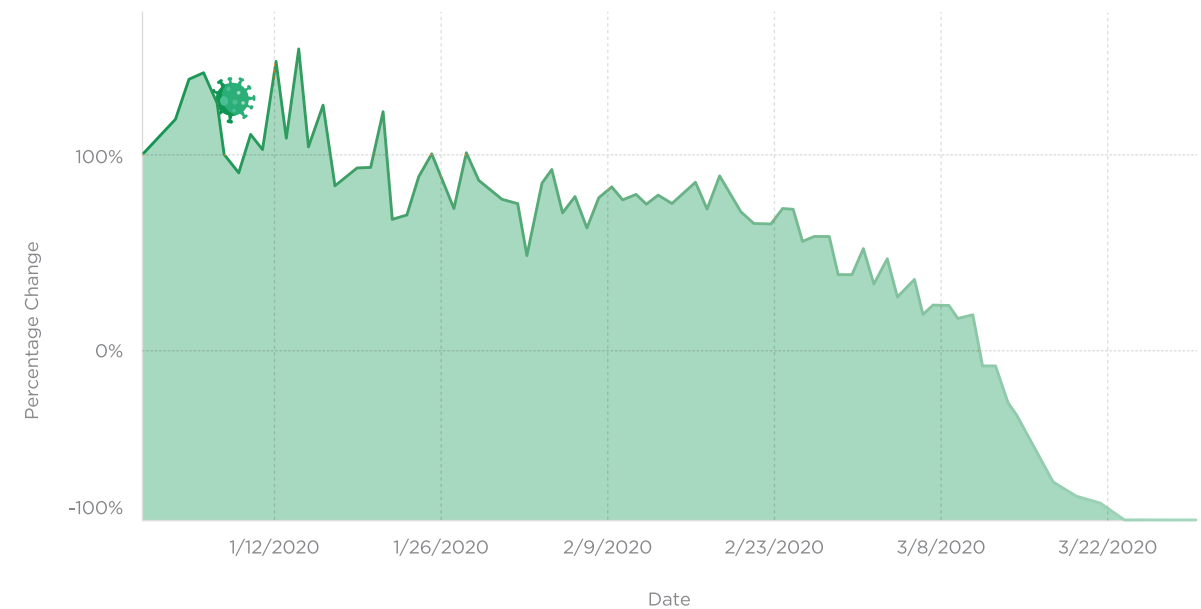
The Impact of Covid-19

The Covid-19 pandemic has had a dichotomous effect on the F&B sector. While some establishments such as groceries and consumer packaged goods are struggling to meet surging demand, others such as restaurants have seen their market share shrink.

In April 2020, a study by Eat App, a leading Middle East restaurant reservation platform, found that restaurants in the region were already experiencing a 60% decrease in dine-in customer numbers in the weeks leading up to Covid-instigated shutdowns in March 2020.¹⁴ With closures in place, the report notes, revenues of many restaurants across the GCC dropped to zero.

Daily year on year % change in restaurant visits and reservations across the MENA region

Source: Eat App



In March, and as Philip Wooller, Area Director, Middle East and Africa, at hotel sector data company STR, notes,¹⁵ occupancy at the majority of hotels in the region had dropped below 30%.

However, by successfully adjusting to emerging conditions through realigning operations and investments, companies in Kuwait have positioned themselves effectively to thrive in the post-pandemic landscape.

2020 was largely defined by the Covid-19 pandemic and its transformation of consumer behavior according to Kout Deputy CEO Amin Mohamed. Mohamed notes that customers are increasingly favoring delivered cooked meals and online grocery shopping. Mohamed points out that delivery was already on a steady upward trajectory over the last few years, while dine-in had been declining.

Walsh echoes Mohamed's comments, highlighting that the pandemic has irreversibly changed people's food consumption habits, particularly when it comes to the point of consumption. Walsh notes a major pivot within food services towards domestic offerings like online ordering and delivery services. This trend became particularly pronounced starting in the second quarter of 2020. However, Walsh suggests that the changes that happened then will have a lasting effect. He notes that even after lockdowns have been relaxed, "you do not see people go back to restaurants the way they did before."

In response, restaurant chains and franchise operators such as Kout Food have had to focus on and optimize less costly segments like pick up and takeaway in order to offset the rise in delivery costs. Kout has also adapted its communications, offers, and customer engagement. As Mohamed emphasizes, everything "from the back of house, to our offices, to the way we prepare and deliver [is] a contactless, cashless experience to our guests."

In the coffee market, consumer behavior has likewise shifted to in-house consumption according to Al Sayer, who adds that, along with drive-thru and delivery, "people are going to be educated on how to make their coffee at home." "During Covid, a door was opened," he continues; "we're now selling coffee bean subscriptions to people at home and it was a huge move that generated huge sales."

However, the change also presents challenges for the company. "Covid helped people realize that they need technology," he explains, but success is still largely dependent on having the right team. "It's hard to find talent, and technology can never be by itself, it's always going to be technology and human interaction even in the future," he explains. "A machine will do the operations for you, but you need a person to give it its command. Everything can be useful if humans use it in the right way."

Endnotes

14 Eat App; "The Massive Impact of COVID-19 on the Middle East Restaurant Industry" (2020)

15 Hotel News Now; "How hotels in MEA are hit by, coping with COVID-19" (2020)

Entrepreneurial Success Stories

The F&B startup ecosystem in MENA grew exponentially in the first half of 2020. In the first six months alone, F&B startups amassed \$162M in investment compared to the \$43M raised over the entirety of 2019. The surge, according to MAGNiTT's H1 2020 MENA Venture Snapshot¹⁶, is explained by investors leaning towards “established startups operating in industries that are performing better than others given the crisis.”

As consumer behaviors and food production and distribution models change rapidly and get remade by technology, restaurants and hotels may find collaboration with startups an effective way to stay ahead of the curve. Startups can help established hospitality companies cut costs, reach new customers, and explore new business models.

Luckily, the region is home to a number of promising and successful startups in the hospitality industry.

COFE

COFE App is an online coffee marketplace launched in Kuwait in 2018, and currently operational in the UAE, Saudi Arabia, Turkey, and the UK. “We felt that food has a marketplace, even the flower and laundry businesses have marketplaces; yet the fastest growing beverage around the world [coffee] was without any real marketplace, and that is where the idea for COFE App was born,” explains Founder and CEO Ali Al Ebrahim. As Al Ebrahim relays, coffee is the second most consumed beverage after water, and represents a market that is worth more than \$100B globally and that is growing by more than 60% annually.

Al Ebrahim is keen to stress that the company sees itself as a technology company first and foremost. “We’re not a logistics company, we are a tech company. Being almost entirely cloud based, expansion to additional markets can happen fairly quickly,” he explained. “Tomorrow, if we want to scale to other cities or even countries,” he continues, “it’s as simple as finding coffee shops, getting them on the app, and setting up their rewards programs.” So far, the company has had three funding rounds - two in 2019 which raised \$5M, and, most recently, a Series B round that raised an additional \$10M.

COFE App builds all of its technology in-house. The company’s technology team employs twenty developers, and includes product designers, product engineers, and data scientists. Hiring, however, has been a notable challenge. The region lacks talent, and “it’s very difficult to convince talented people to move here,” Al Ebrahim notes. The company has been able to address this challenge by building a strong employer brand.

Al Ebrahim explains that “having a strong brand goes a long way in getting the right talent onboard, in addition to remote working becoming more and more normal.” Regulation has nonetheless been however continues to be a hindrance to recruitment: Al

Ebrahim particularly notes the company's inability to issue stock options for employees, something which is vital for companies to grow, "especially during the initial stages."

FOODICS®

Foodics is a Saudi F&B and retail technology startup that initially started off as a menu digitization service. The company has since grown into a comprehensive cloud-based restaurant management platform: an all-in-one POS solution that includes a kitchen display system (digital order viewer), table management, inventory management, call center management, employee timesheets, and analytics. Founded in AlKhobar by Ahmad Al-Zaini (CEO) and Musab Alothmani (CTO) in 2014, Foodics now operates in 17 countries, including all GCC countries, the UK, France, Spain, Malaysia, Indonesia, and Turkey.

Al-Zaini believes two key trends will shape the future of F&B. Cloud kitchens will primarily impact quick-service and takeaway restaurants, while analytics - namely customer engagement and loyalty programs - will be a main area of interest for fine dining and casual dining establishments. For dining establishments, as Al-Zaini notes, retaining customers is crucial for business, "There are some restaurants that depend 80% on recurring customers." However, for quick-service and takeaway restaurants, there is a growing focus on minimizing operation costs due to increases in delivery costs. As a result, "everybody is looking to increase their margins," he continues, "and I believe that cloud kitchens will play a very good role in that."

Competitiveness is an added benefit of cloud kitchens. As Al-Zaini notes, the number of restaurant branches opening in the region "is really very out of the normal. For example, a burger chain in Riyadh has more than 150 branches where the population is almost 9 million." Running a large number of branches incurs

huge costs; "the cloud kitchen," he explains, "plays a very good role in terms of controlling the quality of food and increasing the margins as well."

To capitalize on this trend, Foodics has entered into a joint venture with a global cloud kitchen player; the company has also partnered with a leading regional cloud kitchen company based in the UAE. "The plan is to open more cloud kitchens in the [Saudi] Kingdom in 2020," Al-Zaini concludes.

Recognizing that cash flows represent a critical pain point for small F&B businesses in the region, the company raised \$100M for Foodics Capital in October 2020. Foodics Capital is a micro-lending platform that aims to support Saudi F&B merchants through Shariah-compliant micro loans and to enable them to accelerate their growth post-Covid-19.

نقوة ngwah

Ngwah is another leading food tech startup based in Saudi Arabia. Founded by Abdullah Alsubaie and Omar Alessa, it specializes in food delivery software. As Alsubaie explains, the company has "one simple goal: to solve the issue when it comes to lunch for employees."

Alsubaie initially developed a chatbot that allowed employees to place breakfast and lunch orders as a pilot. "I drove myself to the restaurant, got the orders and delivered them," he says. Alsubaie and Alessa decided to develop the service and launch it officially in early 2017. By 2018, the company was serving close to a hundred thousand employees.

The next milestone for Ngwah was launching their service to the general public. “We had a lot of restaurant contracts, we had our logistics arm, and we have those customers who are ordering from us during working hours. Lets keep them all ordering while they are at home or anywhere else,” he recounts.

Ngwah distinguishes itself from its competition by focusing on medium- and high-level income customers who work in the private and public sectors. In light of the Covid-19 pandemic and ensuing lockdown measures, the company has expanded its offering to include grocery and pharmacy deliveries.

Ngwah’s technology includes machine learning and AI algorithms that make custom-tailored suggestions of restaurants and foods for each customer; these have been developed locally by Saudi engineers. “We build everything in-house, for one simple reason,” Alsubaie explains. “Whenever there is something changing in the market, whenever we have to adapt to something, it’s going to be quicker than any of our competitors to adapt.”



Another company building its service using artificial intelligence technology is **Eila**: a chatbot that helps businesses sell their products and services over Facebook Messenger. “The whole story started because in 2006, Facebook opened up its messenger platform, and chatbots became kind of a popular thing,” explains Founder Samer Tarazi. “Everybody went towards customer support at that point,” he continues, “and what I wanted to do was something a little bit different. So I started focusing on what is called conversational commerce.”

Initially, Tarazi intended to develop the chatbot to allow sports stadium attendees to order food or merchandise from their seats. However, he was unable to get the service off the ground. “We

were here in Jordan and couldn’t go to a market where that was actually something that would add a lot of value,” he notes.

Eventually, Eliathey was able to successfully implement Tarazi’s idea of a conversational chatbot for a local coffee shop, and to quickly scale to add another 15 shops. The service allowed businesses to take delivery orders, virtual drive-through orders, and in-store orders.

As its customer base grew, Eila converted its solution for cafes and restaurants into a SaaS (software-as-a-service) platform. SaaS is a software distribution model in which applications are hosted by the service provider on the cloud and made accessible to customers via the internet, usually on a subscription basis. Eila’s B2B model proved hard to get off the ground. “You had to convince restaurants, which is not the easiest thing in the world,” Tarazi explains. At last, the company pivoted to its own B2C brand, having found its “sweet spot” by focusing on the food sector in Africa, and specifically in Kampala, Uganda, where the company mainly operates.

In their pivoted B2C model, Eila leverages its chatbot to sell private-label versions of foods produced by local suppliers. Eila also created Dealbot - a deal aggregator through which Eila leverages its marketing spend to attract customers by offering products from its private labels or from other suppliers in an affiliate marketing model.

Eila’s competitive edge is its seamless experience and cost-efficient approach to customer acquisition. “We were getting a user who never actually interacted with us before, he sees a paid ad, and then completes a purchase within 50 seconds,” Tarazi explains. The service doesn’t require you to download anything or enter any kind of information; “you skip a lot of these kinds of hurdles that usually stop you from completing a purchase.” The lack of friction translates into higher conversion and retention

rates, “higher than any other traditional medium, like an app or a website.” Furthermore, acquiring a user costs between 15 and 20 cents on average, “which is pretty cheap if you compare it to what it takes for someone to download an app, Tarazi concludes. ”



Yacob is a digital nutrition management program and platform that links children, parents, schools, and food vendors in the UAE. The company helps parents gain insights into their children’s eating habits while they are at school. It also offers services that allow parents and young children to order food online and have it delivered to school.

“In its current state, our software could work in any closed food system. This could include corporate establishments, the military, etc. But right now, our focus is on schools,” explains Co-founder and CTO Wael Orabi. Operating in so-called ‘closed food systems’ is critical to the company. “In order for us to track what the person is consuming and not to depend on them to manually assess what they’re eating, we have to know what goes into the food.” Orabi continues. In practice, students are given a magnetic card that is used to make purchases in the school canteen. This, in turn, allows the system to form a precise understanding of their diet.

So far, Yacob’s services have been adopted in 65 schools across six cities in the UAE, serving 15,000 users, with 5 million meals already sold via subscription and the platform registers \$40,000 of transactions a day.

Yacob currently employs a number of nutritionists, who look at the collected data and give parents advice on how they can help their kids adopt healthier lifestyles and diets. The company is

keen on exploring ways to further leverage the data they collect using advanced technology. “We’re not at that stage yet,” Orabi explains; “one of the things that we’re looking at is to use machine learning and AI to pick up on the trends and find ways to enhance or help people adopt healthier lifestyles.”

For now, however, the industry still heavily depends on the manual intervention of nutritionists, “partly because the nutrition science is a very new science and there’s a lot of changes regarding what is healthy and what is unhealthy and what you should eat.”



Another startup tackling nutrition is Kuwait-based **Nutribox**, an interactive nutrition app that connects users to qualified health experts from around the world for on-demand private consultations. The app also allows users to order meal boxes from a curated marketplace of healthy food vendors, leveraging smart algorithms to create personalized recommendations that balance nutritional preferences and health goals.

The company was founded by Noora Al Askar, a board-certified clinical nutritionist who returned to Kuwait after graduation to launch the nutrition department at Taiba Hospital in Kuwait. Eventually, the department became one of the most profitable centers at the hospital. It has received accreditation from Joint Commission International, a US-based organization that accredits healthcare organizations and programs in the US and around the world.

“We’re very border-agnostic and our mission is to empower people to live a healthier life and achieve their health goals,” explains Al Askar. Nutribox has over 30 different food brands

and 37 nutrition health experts from around the Arab world on its platform. “We’re very data-driven as well,” Al Askar explains, adding that the service has incorporated behavioral science into its working. “The point is that gradually, subconsciously users start changing their habits. You’ll be guided and motivated on a day-to-day basis, but not, let’s say, told what to do per se.”

Nutribox’s mission is to digitize a market that Al Askar sees as “very” fragmented. “People are consulting dietitians through direct messages, through WhatsApp, etc, in a very haphazard way.” Nutribox aims to consolidate that. Al Askar says “I believe that this is the future, this is where the market is headed from a user perspective and from the supplier perspective. We’ve created an ecosystem within Nutribox, where stakeholders positively benefit from each other within the platform.”



Dubai-based **Hotel Data Cloud** is a B2B content distribution platform that syncs information on hotel properties including property descriptions and pictures and information on amenities and services across various online booking channels and travel websites. Founded in 2016 by Gregor Amon and Kevin Czok, the service effectively allows hotels to seamlessly control how they are portrayed online and avoid outdated, inaccurate and misleading information that can alienate potential customers and jeopardize property reputations.

Hotel Data Cloud’s database accounts for over 600 data points or attributes. In light of Covid-19, the platform now allows hotels to communicate information related to hygiene and safety through an additional 94 standardized attributes.

Hotel Data Cloud charges hotels an annual fee for its content distribution services. Up-to-date data entered into the platform is piped through feeds into the systems of booking channels and travel companies. The platform already serves over 11,000 hotels, and has recently secured an agreement with Global Hotel Alliance, an alliance of 35 luxury hotel groups that cover 550 properties. According to Czok, the company recently started monetization. “Our target for this year is to reach our neutral profitability [break even], and then grow from our profits in the next year to come,” he explains.

The company is also exploring ways to enhance its services, namely by developing new functionalities. “We are not just using content and distributing it, we are developing AI that uses all the different attributes that we collect from the hotels and combining these attributes with traveler preferences..to generate a smart recommendation of hotels.” Furthermore, the AI used would be able to generate individualized descriptions in real time. “So you look at a hotel and would get a completely unique description based on what you expect and what you wish to find at the hotel according to your requirements.”

The company is considering venturing into neighboring verticals. “Something that could be quite attractive with easy adoption is to go towards tours and activities,” adds Czok. “We could also take the technology and use it for entirely different markets like retail, even for markets like medical offering, service providers, and so on,” he concludes.

Endnotes

Recommended Steps for Digitization

As the hospitality industry is reshaped by changing consumer behavior, new technology trends, and the Covid-19 pandemic, industry players should leverage emerging digital technologies and business models to accelerate their own innovation and enhance their revenue streams.

Covid-19 in particular has presented F&B establishments and hoteliers with a wake-up call. In order to stay afloat, compete and thrive, these establishments must successfully identify pertinent trends, and implement the necessary technologies and management processes that fit their needs.

Focus on Delivering Flawless Experiences

Digital technology has brought about immense opportunities for hospitality establishments to innovate and achieve efficiencies, but it has also exponentially amplified the impact of word of mouth. Social platforms like Facebook and Twitter and review websites like Yelp and TripAdvisor have empowered diners and travelers to indelibly share their praises and grievances to considerably wider audiences. Delivering a delightful, seamless and customer-centric experience has become more important than ever to maintain an establishment's reputation and foster repeat business.

Automation and AI can deliver this seamlessness by eliminating human error while also helping provide personalized services and tailored recommendations. For hotels in particular, IoT unlocks new possibilities. Embedding connected devices across the hotel can provide smooth digital access to amenities like room keys, lighting, and entertainment. IoT can also be leveraged to eliminate queues for check-in and check-out. Migrating and managing customer databases on cloud is also essential as it allows companies to deliver a uniform experience for customers across the business.

Integrate Customer-Facing Technologies

Tech-savvy diners and travelers will grow to represent the overwhelming majority of consumers. According to a study by Hospitality Technology, 56% of consumers will book a hotel room if it offers high-tech guest room features such as a mobile key¹⁷; similarly, a 2020 study by Toast showed that 'order at the table technology' was either somewhat important or extremely important to 84% of respondents.¹⁸

Restaurants and hotel facilities must embrace a mobile mindset and implement customer-facing technologies to ensure that their offerings are ahead of the curve. Mobile apps in particular can reduce friction and create a sense of empowerment for customers by allowing them to book and pick their favorite room, skip check-in lines or waiting for a restaurant bill for example.

Expand Payment Options for Customers

According to online travel agency Booking.com, roughly 20% of consumers opt out of making a reservation if their preferred method of payment is not available. Hospitality establishments must provide ample secure and simplified payment options that ensure customer retention and satisfaction.

Develop Loyalty Programs

According to Bain & Company¹⁹, acquiring a new customer can cost between five and 25 times more than retaining one. Furthermore, increasing customer retention by as little as 5% could increase profits by anywhere between 25% to 95%. Digitization can enable hospitality establishments to harvest large amounts of information about their customers and develop targeted marketing operations that increase loyalty and customer retention.

Effective loyalty programs seek to reinforce brand loyalty through discounts and preferential treatments and result in higher frequencies and volumes of customer purchases. Businesses ought to explore omnichannel loyalty programs, which enable consumers to exercise loyalty benefits seamlessly, whether in-store, online, or on mobile.

Explore Cloud Kitchens Opportunities

Stay-at-home guidelines have weakened traditional dine-in businesses, but they have considerably accelerated the growth of the cloud kitchen market. According to a recent Euromonitor report, cloud kitchens or “ghost kitchens” could constitute a \$1 trillion global opportunity by 2030.²⁰ Cloud kitchens present restaurateurs with a low-risk, low-cost model to grow into new markets and test out new concepts. For entrepreneurs, cloud kitchens also provide a faster time-to-market option than traditional, full-service restaurants.

Endnotes

