Recession bites

by Joanne Bladd on Sunday, 08 March 2009

In lean times, fast food companies rack up fat profits. *Arabian Business* learns the tricks behind the trade from the Gulf's most recession-resilient businesses.

Dressed in a suit and tie and carrying a briefcase, Paul Holmes isn't your average McDonald's regular. Yet here he is, during a Monday lunch hour, sitting in a Dubai branch of the burger chain and devouring a cheeseburger and large fries.

Two tables down another city-type is drinking a McCafé espresso which, priced at AED5 ($1.30), is less than half the cost of a Starbucks coffee. As the downturn bites, the chain's low costs are luring in a new wave of fans who, as the tagline says, are lovin' it.

The credit crunch has made financial losers of many companies, but it has also produced some winners. Fast food does well in slow times and, even in the current downturn where all bets are off, many junk food brands are coming out on top.

McDonalds is the poster brand for recession-resilient business. The fast food juggernaut posted a net profit of $4.3bn for 2008, up 80 percent on the previous year's $2.3bn. Across the Middle East the chain's income spiked by 33 percent, with same-store sales up nine percent for the year.

Even in the fourth quarter when the downturn hit, sales held steady reports Rafic Fakih, managing director of Emirates Fast Food Co., which runs 61 McDonald's restaurants across the UAE. Proof, were it needed, that the firm is on a roll.

Over at Baskin Robbins, the Gulf's biggest ice cream player, sales are up 26 percent. The chain sold $101m ice cream products last year, up from $80m the previous year, and scored record sales in January.

"We're expecting good growth this year, roughly another 22 to 25 percent minimum, and we're looking at opening another 45 to 50 stores across the GCC," reveals Manoj Loya, general manager of Galadari Ice Cream Co., which owns the GCC franchise for the brand.

Walid Hajj, CEO of Cravia, which holds the brands Cinnabon, Seattle's Best Coffee, Zaatar W Zeit and now Roadster Diner in the UAE, describes 2008 as: "A record year, by top line, bottom line, store growth, everything. And we're still positive so far in 2009."

What's good for fast food is good for the economy too. Cravia employs some 1,000 staff, while McDonalds employs more than 1,300 in the UAE alone and uses - almost exclusively - local suppliers.

It shouldn't be surprising. In the last decade, the fastest thing about the fast food industry has been its growth. But that's not to say some brands haven't faltered. For example, judging by its 2009 second quarter results, Burger King has fallen off its throne. Always the bridesmaid to McDonald's bride, the chain posted profits of $44m, down 10 percent on the same period last year.

Kuwait's Americana Group, the biggest fast food operator in the Middle East with KFC, Pizza Hut and Hardee's in its portfolio, saw its full-year profits dive 36 percent last year. Net income dropped to KD35m ($122m), from KD55m ($186m) in 2007, likely pulled down by the number of mid-market casual dining chains Americana runs.

"Managing in any recession is difficult, and managing through this one is particularly hard as it differs from earlier downturns in multiple ways," says Marzouk El Kharafi, chairman of the group. "Consumers are migrating south to the brands that will offer greater value for their dollar at a guilt-free ticket price."

Many fast food chains will face a fork in the road this year. The global downturn is so bitter than even no-frills dining will feel the pinch if conditions don't improve, and some smaller brands may not survive. Tourist figures, which comprise a key part of footfall, are already on the slide, says McDonald's Fakih. "Even we might not see the same growth this year."

Dunkin Donuts is forecasting five percent growth for its UAE franchise; a dramatic drop from the 25 percent increase it's grown used to over the last three years.

Appetite for destruction

The path to world domination doesn't run smooth. Along the way, fast food giants have been attacked for their fatty foods, their marketing methods, animal welfare standards - and the list goes on. McDonalds, as the largest chain by market share and influence, has faced the bulk of the backlash, namely in Eric Schlosser's 2001 exposé of the industry, ‘Fast Food Nation'.

The book racked up 1.4 million in sales and provided food for thought on everything from the contents of a strawberry milkshake - 59 chemicals and no fruit, apparently - to meat packing conditions.

It also laid the groundwork for Morgan Spurlock's hit 2004 documentary ‘Super Size Me', which went head-to-head with the golden arches. In it, Spurlock ate nothing but McDonald's food for a month, accepting a ‘supersize' portion whenever it was offered. Thirty days later, he had gained 24.5lb (11kg), high blood pressure and had a liver "turning to pâté".

The industry has bitten back, answering their nutritional critics by phasing out trans-fats and loading their menus with healthier items. McDonalds has also fronted a campaign urging customers to take more exercise. The results? Negligible. But the industry can no longer be wholly blamed for public porkiness.

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