



# Picking Up The Tab

Tourism is one of the cornerstones of the Jordanian economy. Last year it accounted for 13.4 percent of the nation's GDP. But the rise in prices over the last year has meant that many of the sector's strongest contributors are starting to feel the pinch.

Restaurants are an important component of Jordan's tourism industry, but they are a business that happens to come with small margins and very elastic demand, and since the government has been slow to come to their aid, many of Jordan's restaurateurs have been left in a precarious position and are having to foot much of the bill themselves. **By Noor Al Saleh.**

THERE'S A MAXIM in the restaurant business saying that 9 out of 10 restaurants fail in the first year. While many weathered restaurateurs will dispute this as slightly inaccurate if not wholly exaggerated, there is still much to be said for the underlying sentiment of how difficult it is to open and run a restaurant. Anywhere. It's a tough business at the best of times. Competition is stiff, costs fluctuate, tastes change and, for many, fine dining will always be a luxury. In Jordan, these challenges are today being compounded by rising food and energy costs and a sluggish economy. Restaurant operators are starting to feel the squeeze.

According to the Department of Statistics, the consumer price index in the first months of this year rose by 10.7 percent relative to the same period last year. The main groups that contributed to the increase were "fuels and lighting" (33.9 percent), "dairy and dairy products and eggs" (31.73 percent) and "dry and canned legumes" (24.14 percent). These increases in price are putting the local tourism sector in real danger.

"When we started Fakhreldin Restaurant, real estate was cheap," said Azzam Fakhreldin, owner and manager of Al Qasr Touristic Investment Company (ATICO). "Now there is nothing you can do to compete. Energy costs are horrendous, real estate is expensive, salaries are up sky high, raw meat is expensive. Your margins are eaten even more because of the devaluation of the dollar," he added. "The costs will eat up everyone, and small businesses will close."

"It is not the food products that contributed to the rise in the prices of restaurants, but the rise in everything else like energy, salaries and the rise on the importation duty levied on alcohol" said Zaid Goussous, President of the Jordan Restaurant Association (JRA) and Owner of Romero Restaurant & Affiliates.

Naturally these rises in prices have taken their toll. "People are going out less," said Khaled Tabbaa, owner of a chain of restaurants. He believes there will be a slow down in the restaurant business as the increases in price were

not paralleled by an increase in income rises.

"The rise in prices has created a storm for restaurants, particularly more casual ones that depend on middle-class customers," he added. Fine dining restaurants, on the other hand, have probably not been affected as much as the upper class that usually frequents such restaurants did not feel the rise as much as the middle class did.

Customers, according to Marie-Claire Marroum, owner of Kashmir & Al Argeeleh restaurant, have become more price conscious over the last year. "We did not lose clients," she said, "but the bills of those clients. Instead of them ordering a bottle of wine, now it is a glass, instead of shrimps, it's chicken," she explained.

**"We did not lose clients, but the bills of those clients. Instead of them ordering a bottle of wine, now it is a glass, instead of shrimps, it's chicken."**

But Guossous and Fakhreldin seem to agree that there are also other factors that have contributed to the Jordanian restaurateurs' current hardships. According to Fakhreldin, lots of projects were started two years ago when the economic climate was thriving and people had disposable income. This encouraged a lot of people to invest; some even took loans that now have to be repaid, which has placed an extra burden on owners trying to make ends meet. The increase in the number of restaurants, according to Goussous, also meant that the limited clientele for these sorts of outlets had to be shared between an increasing number of restaurants.

## Dealing with the Challenges

Caught between increased competition and trying to maintain a satisfied clientele, restaurant owners are trying to deal with the rise in prices with caution.

Although the majority of restaurants have had to increase their prices at rates varying from 10 to 20 percent, these increases do not reflect the real situation. Owners are reluctant to increase their prices all at once, afraid of alienating their loyal customers. "We cannot pass it all onto our customers, we have to absorb part of the cost increases at the expense of our profit," said Tabbaa.

In the current conditions, restaurants will have to trim their margins. There is no other way. Because trying to cut costs while maintaining the same quality is a dangerous game as Basil Fakes, Casper and Gambini's General Manager warns. Restaurants should not play with the ingredients to cut costs, but instead create dishes that are more economic and thus less expensive for couples and families, he said. "We are looking at packaging things for the customer with a package price, so it would be a package for two or more," he explained. "We are also looking at re-promoting the half portions meal that has always been on our menu for the businessman, which contains half portions of more than one dish. This is for the customer who likes our atmosphere and food but doesn't want to pay for a salad, a starter and a main dish," he added.

Marroum says that she had never been strict about kitchen management and storage control. In the past, she used to do an inventory check every now and then. Now, it's every day. "I was never strict about how many loaves of bread or hummos plates we do every day. Now I get crazy if I see anything wasted," she said. Being conscious about such issues is understandable knowing that the cost of 15 kilos of Tahini has increased from JD24 to JD56 and 12 liters of milk have gone from JD24 to JD46.

Some restaurants have managed to mediate part of the price rises by cutting down on non-core expenses such as marketing. "We used to budget about JD15,000 annually for our marketing but we cannot afford to do that any

more,” said Marroum. Others, however, like the acclaimed Iranian restaurant Zareef, have already gone under.

**The Damage**

“You need three things to create a successful startup,” said Haneen Malhas, one of the partners in Zareef. “To start with hiring good people, to make something customers actually want, and to spend as little money as possible.”

Although Malhas and her partners introduced a new and exciting concept, they were starting up at a time when the barriers to entry into this market were becoming more pronounced. “Unskilled labor and expensive start up costs were among the challenges we faced,” Malhas said. But the final blow was the last rise in prices earlier this year. “We did not increase our prices but started offering smaller portions,” she says. “But that also meant we were absorbing the higher costs of energy, food and salaries.”

Tabba, however, indicated that no matter what kind of startup you are, it will probably be a stretch for you, as the owner, to understand what customers want. “We discovered that people did not accept Iranian food,” said Tabba who was also running Fairuzi, another Iranian restaurant. “This is when we decided to change Fairuzi to Lemon where we serve argeeleh and international cuisine,” he said.

According to Fakhreldin, businesses that are already established are not suffering as the new entrants to the mar-

ket. However, according to another restaurateur, the struggle is for all as the real problem is that people can give up eating out. “They will not cut back the total experience of going out but definitely they will cut back the frequency,” he said.

**“We are asking them to treat wine differently to alcohol because wine is a strategic tourism product, the cost of a 2 Euro bottle of wine ends up sold here at JD32”**

“The survivors in the food sector will be those who will maintain efficient prices and good quality,” said Tabbaa, stressing that the hit-and-run game is over with the competition around. “The damage will be more for those who own one restaurant,” he continued.

“I am in a cautious mode. I want to watch the sales of July and August. I am neither optimistic nor pessimistic,” he added.

**What’s being Done?**

The restaurant industry in Jordan is closely tied to tourism, and keeping

the industry robust is in line with the government’s stated policy of turning Jordan into a boutique destination for Western tourism. So the current challenges have pushed the restaurateurs to approach the government for the purpose of finding solutions that can be introduced to help the sector survive.

Recently, the Jordan Restaurant Association met with the Ministry of Finance in an attempt to convince the government to reduce the import duty on wine. “We are asking them to treat wine differently than alcohol because wine is a strategic tourism product,” Goussous stressed. “The cost of a 2 Euro bottle of wine ends up being JD32,” he said.

“One of the solutions we suggested was forming the chamber of tourism where we start treating tourism as an export industry,” said Guossous. “We are also suggesting that restaurants should be treated as hotels by giving them free import duty on equipment and help them renovate their kitchens every five years for example,” Guossous continued.

However, Guossous clearly stated that so far the government has not been receptive to reduce the sales tax although all the tourism industry has come to an agreement that it should be reduced to 8 percent. According to Fakhreldin, very bold moves have to be made. “Taxes and tariffs kill entrepreneurs,” he stated. But until the government starts to look seriously into those solutions, restaurant owners will continue to pay the price. ●

