

Hotelier MIDDLE EAST
HOSPITALITY
PROCUREMENT
REPORT 2016

CONTENTS

MAY 2016

1. ABSTRACT	01
2. MARKET DYNAMICS	02
3. 2016 PROCUREMENT OBJECTIVES	03
4. BUSINESS PLANNING.....	03
5. DEVELOPING STRATEGY IN THE CURRENT SCENARIO	03
6. KEY DECISION INFLUENCERS	04
7. CONTRACTING PROCESS.....	05
8. THE CHALLENGE OF CLUSTERING.....	05
9. INVOLVING INTERNAL STAKEHOLDERS.....	06
10. A THREE-QUOTATION BUSINESS.....	07
11. THE OUTSOURCING OPTION	08
12. SUPPLIER PERFORMANCE REVIEW	08
13. THE SOFTWARE SOLUTION	09
14. E-PROCUREMENT, OR AMAZON FOR BUSINESS	11
15. TRANSPARENCY AND INTEGRITY	12
16. THE POWER OF PEOPLE	12
17. CONCLUSIONS.....	13
18. ACKNOWLEDGEMENTS.....	14

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HOSPITALITY PROCUREMENT REPORT 2016

1. Abstract

Against a backdrop of tumbling occupancy rates and subsequent drops in average daily room rates, ITP Business Publishing presents the first *Hotelier Middle East Hospitality Procurement Report*. More than 45 hotel procurement managers and directors completed the *Hotelier Middle East Procurement Survey* between December 2015 and March 2016, and during March 2016, eight global, regional and hotel-based procurement directors spoke at length about the opportunities for their business and analysed the results.

Of the 45 respondents to the *Hotelier Middle East Procurement Survey*, 38 hold manager, head of department or director level roles. Thirty-one work for international hotel chains, and 14 are employed by regional or UAE-based hotel operators. Eighty percent of respondents work for companies with hotels in Dubai, with Abu Dhabi, Qatar, Saudi Arabia and Oman the next principal locations. Between them, they are responsible for procurement for more than 360 hotels, with two respondents each representing portfolios of over 50 properties. This equates to, in total based on the lowest estimate, more than 72,000 rooms in the Middle East. In financial terms, collectively the respondents are responsible for business worth in excess of US\$157.6 million annually.

In this report, we present the key figures from the survey, the trends dominating hospitality procurement, and an analysis of the results against the market outlook, alongside a commentary from experts in the field. *The Hotelier Middle East Hospitality Procurement Report* provides essential business insight into this critical hotel function, revealing a move towards an increasingly operations-oriented approach, technology-driven online purchasing and a commitment to transparency, underpinned by a value-led decision making process and an investment in analytics.

2. Market dynamics

In the context of the global tourism, the Middle East hospitality market is relatively robust, performing strongly and still growing. Nowhere is this truer than in Dubai, where the market fundamentals are secure, with the growth in tourist numbers on track to meet the emirate's target of 20 million visitors by 2020. Dubai International Airport has retained its position as the world's busiest airport for international passenger traffic, up 12% in 2015 over 2014, while the total visitor number to Dubai last year was 14.2 million, an increase of 7.8% over the previous year. Looking at this in relation to the economy, the direct contribution of travel and tourism to the UAE's GDP was AED61.6bn (4.1%) in 2014, according to the World Travel and Tourism Council, with this forecast to rise by 4.9% in 2015.

Indeed, as an industry, hospitality and tourism is a key component of the strategic development of most GCC states and in some, like Dubai, critical to the economy. Deloitte reports total development activity within the hospitality and leisure sector to be estimated at US\$24.1bn. This means that, despite the staggering growth in visitor numbers, an increase in hotel inventory in 2014 and 2015, coupled with an opening up of the holiday home rental market and the prevailing 'sharing economy', has started to have an impact on hotel performance. Eleven hotels opened in Dubai in 2015, adding 2,800 keys. In the same year, Dubai saw average occupancy decline -1.4% to 77.5% compared to the previous 12 months, according to STR, and average daily rate (ADR) fall by approximately -7.4% to AED797 over the same period.

Latest data shows the trend continuing into 2016, as supply growth outpaces demand, affecting both occupancy and ADR. This year, 31 hotels will be completed, increasing room inventory by 14% (9,300 rooms) to total 76,500, estimates Deloitte.

In February 2016, Dubai saw a 3.5% decrease in occupancy to 82.5% as well as double-digit drops in ADR (-11.6% to AED833.78) and RevPAR (-14.7% to AED687.63). The emirate wasn't alone, and overall, as a subcontinent, Middle East hotels posted occupancy levels at 70.2% in February, representing a decline of 5.3% compared to the same period in 2015. Average daily rate for the month was down 10.5% to US\$182.45, while revenue per available room dropped by 15.2% to US\$128.12.

If pipeline growth happens as predicted, it's unlikely that performance declines will reverse quickly. The February 2016

Pipeline Report by STR shows 151,454 rooms in 538 hotels under contract (in the construction, final planning or planning stages) in the Middle East.

Narrowing the data down to rooms 'in construction' only, and in the Middle East there are 80,344 rooms in 252 hotels under construction as of February 2016 – a 42.5% year-over-year increase. Among the countries in the Middle East and Africa, Saudi Arabia reported the most rooms 'in construction' with 34,753 rooms in 77 hotels, and the UAE followed with 26,957 rooms in 92 hotels.

Hotel performance will also be impacted by macroeconomics, namely oil prices, commodity price movements and currency fluctuations. The Economist Intelligence Unit (EIU) forecasts real GDP growth in the UAE to average 3.6% per annum between 2015 to 2019, a declining forecast largely due to a significant fall in global oil prices, along with wider global economic factors, such as a slowing Chinese economy and sluggish growth in the Eurozone economies.

While Dubai's economy is less affected by oil revenue than other UAE and GCC states, the downturn in oil prices nonetheless is forecast to prompt fiscal reform, according to the EIU. According to Deloitte's analysis, the cumulative effective of the removal of fuel subsidies, inflation forecast at 3.4% in 2016 and generally stagnant salaries, is likely to lead to lower disposable incomes for some households. The typical result of this is reduced spend on consumables, leisure, restaurants and hotels.

As a result, Deloitte predicts that in the short-term (2016-2017), the delta between hotel demand and supply will widen, with occupancy levels of around 70-75% representing a "new normal" in Dubai. Analysts urge us not to view this negatively, as Dubai remains one of the world's best performing hospitality markets, but for those working in the industry, with pressurised budgets calling for a hike in sales and reduction in costs, the impact is real.

All of the above impacts the development, performance and strength of the Middle East hospitality market, and both directly and indirectly influences the buyer-vendor dynamic within this. The scenario in which hospitality procurement, purchasing and materials directors operate in 2016 is without doubt challenging, but at the same time, abundant with opportunity.

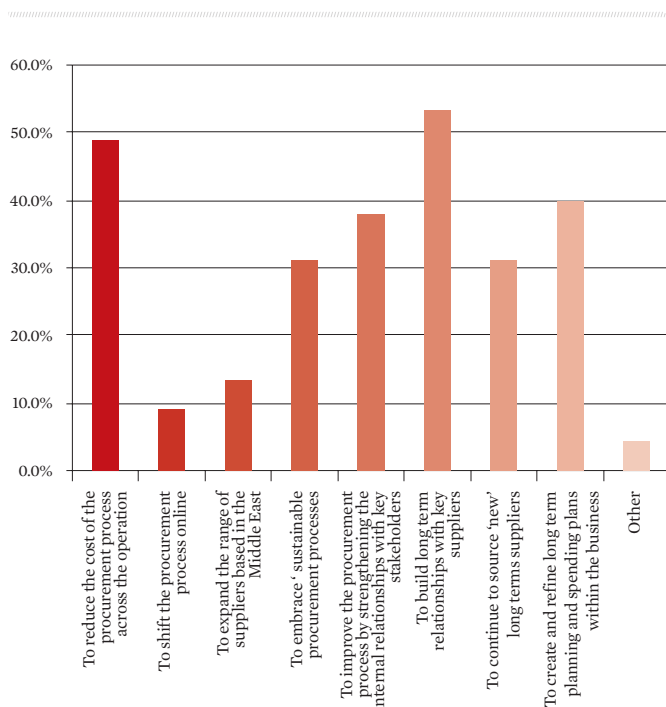
“THE DELTA BETWEEN HOTEL DEMAND AND SUPPLY WILL WIDEN, WITH OCCUPANCY LEVELS OF AROUND 70-75% REPRESENTING A ‘NEW NORMAL’ IN DUBAI.”

3. 2016 procurement objectives

The *Hotelier Middle East Procurement Survey* revealed budget increases in 2016 for 71% of the respondents, largely as a result of new properties coming online, but also in some cases to match an increase in value of goods and services. Budget restrictions, on the other hand, were due as one would expect to a delay in the launch of new hotels and cost cutting measures in the face of prevailing market conditions.

The objectives for 2016 (See Fig 1) were predominately split across three key priorities: To build long-term relationships with key suppliers; to reduce the cost of the procurement process across the operation; and to create and refine long-term planning and spending plans within the business. The fourth priority was to improve the procurement process by strengthening internal relationships with key stakeholders.

FIG 1: What are the core objectives of the company's procurement strategy in 2016?



As you will see on Fig 1, less than 10% of respondents said that one of their three main “core objectives”, was “to shift the procurement process online”. This is an area that will be explored in some detail further on.

4. Business planning

The survey asked respondents for some key insights into their business planning, and revealed stark contrasts. Almost 25% of those surveyed said their property or chain only planned its procurement of consumables one month in advance, while 15% said they planned this 12 months out. Capex procurement planning varied greatly, though in summary, 65% planned the sourcing of capital investment within a 12-month period compared to 35% that planned in advance of one year, with 11% planning more than two years out.

Working with internal stakeholders to identify business needs is fairly standard for two thirds of respondents, (See Fig 2) who say they have regular planning meetings. Only 40% go as far as to

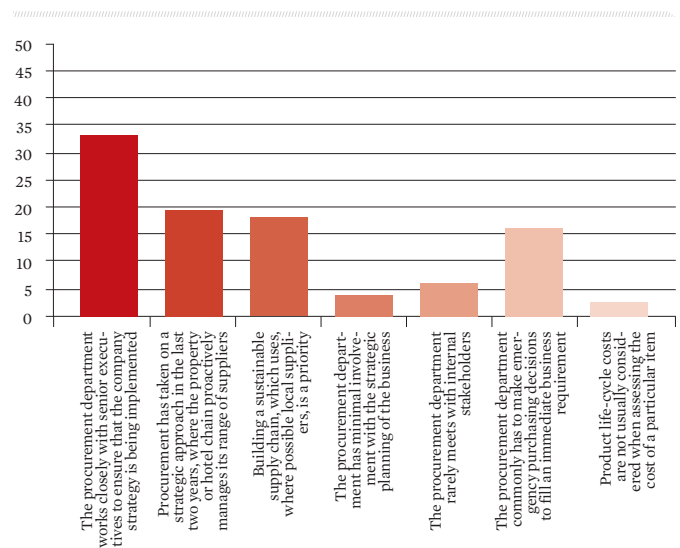
meet potential and existing suppliers together and only 45% share internal audit and procurement management reports with their stakeholders, though as the report will reveal, this low number may be more likely attributed to the fact that such reports are hard to come by.

Those procurement professionals we spoke with observed a more operations-oriented procurement business, with each party giving the other more chance to input and feedback. There seems to be a move towards a more collaborative approach, as hinted at in the survey, which revealed that 27% of respondents said they followed the recommendations of their colleagues in other departments 50% of the time or more. At the other end of the spectrum, however, 22% said this rarely happened, with recommendations being taken less than 10% of the time. The remainder, as one would expect, sat somewhere in between.

Overall, the procurement professionals surveyed felt confident that their colleagues had a middling to high understanding of their challenges, roles and responsibilities.

However, this doesn't prevent last-minute purchasing requests, as is the nature of the business. The majority of the respondents, said they “strongly agreed” that the procurement department commonly has to make emergency purchasing decisions to fill an immediate business need.

FIG 2: Respondents 'strongly agree' with the following statements



More positively though, the procurement survey revealed a department that believes it has strategic value in its business. Seventy-three percent of respondents said their department worked closely with senior executives to ensure that company strategy is being implemented. Only 4% said they strongly disagreed on this point. Seventy-seven percent of respondents added that they agreed or strongly agreed that procurement has taken on a “strategic approach in the last two years” with proactive supplier management.

5. Developing strategy in the current scenario

With this strategic notion in mind, how are procurement professionals planning for 2016, a year we have already outlined poses several commercial challenges for the hospitality industry?

At Atlantis The Palm, director of procurement Bhanu Pratap Singh, says that the tough trading conditions of 2016 provide

“FROM A GUEST STANDPOINT THEY SHOULD NEVER KNOW IF YOU’VE CHANGED A SUPPLIER OR A PRODUCT”.

an opportunity for hotels to “reinvent, innovate and revise” and that for procurement to be seen as strategic, it must contribute to this.

“Look at what else can be done and how it can be done. It’s very important for procurement to be party to that journey and if you’re not doing that, you’re not helping the organisation in its strategy,” he says.

“The current scenario has created a situation where, though you have your traditional sources, you start to look at things freshly. What we foresee is yielding better rate, and yielding better terms and conditions for the business,” says Singh. “People are willing to find and sign up for a long-term agreement to secure business... even if they will make lower margins, so we need to use that opportunity. What procurement needs to do is a strategic job to deliver the right value proposition to the business.”

At Dogus Restaurant Entertainment and Management (D.ream), director of purchasing Brendan Johnston agrees this is a year to take a fresh look at business as a whole. D.ream’s Middle East portfolio comprises high-profile independent restaurants Zuma, Coya, Nusret and La Petite Maison, with Johnston working on the procurement for eight new restaurants planned to open in 2016.

He says: “In this time where restaurants are in a decline right now, it’s about trying to figure out where you can make up that 10%, whether it’s on your alcohol contracts or consumables or on some of your big protein suppliers, seeing if there is any alternative products from another country. If you’re buying beef from Australia maybe look at a similar cut from Brazil to save some money and just try to look at everything category by category to see where you can make savings without cutting the quality.

“From a guest standpoint they should never know if you’ve changed a supplier or a product,” warns Johnston.

However, while buyers are always seeking a discount and suppliers are willing to be flexible, Johnston points that for the most part, their costs are fixed. Therefore, changes need to come from thinking outside of the box. He suggests a move to overnight deliveries, taking advantage of the quiet roads to increase efficiency, for example.

Johnston estimates 30-40% of deliveries are possible at night, and while it would require initial investment from both sides in overnight drivers and receivers, he thinks the value in it will drive the market this way.

6. Key decision influencers

Procurement involves a complex decision-making process, with various elements for consideration: cost; quality of service/prod-

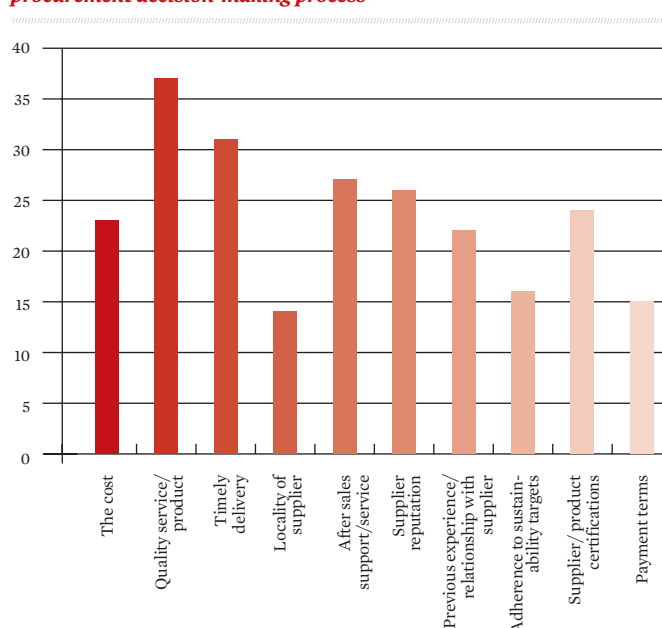
uct; timely delivery; locality of supplier; after sales support/service; supplier reputation; previous experience/relationship with supplier; adherence to sustainability targets; supplier/product certifications; and payment terms.

According to the *Hotelier Middle East Procurement Survey*, all of the above factors have at least a decent level of relevance, with most being ranked as either “quite high” or “high” (See Fig 3). An overwhelming number of respondents, 82%, ranked quality as the most important factor – higher than any other. Respondents also gave more weight to “timely delivery” and “after-sales support” than they did cost. Only 51% said that “cost” was a high influencing factor.

The factors less likely to be ranked as highly important were supplier location, payment terms and adherence to sustainability targets. One can assume payment terms are not deemed to be as important because it is a buyer’s market and with most chains and individual hotels, whether international or local, for a company to be registered as a supplier they will need to accept the buyer’s payment terms, not the other way around.

For a minority, sustainability efforts do play a critical role in the decision-making process. According to the survey, 13% said they would “only do business with suppliers that can prove their green business credentials”. The vast majority at least claim to place some value on green business initiatives, with 73% saying they give preference to suppliers that have green certifications.

FIG 3: Graph showing ‘highly relevant’ factors in the hospitality procurement decision-making process



At Marriott, the absolute priority is establishing that suppliers have the right insurance in place. This is a prerequisite for preferred suppliers, according to Marriott International director international procurement, Middle East and Africa, Liviu Raulea, who is responsible for procurement across a portfolio of 160 hotels, around 50 of which are pipeline properties. As of March 2016, Raulea is working on eight active opening projects.

“In this part of the world not every vendor is covered with liability indemnity insurance so we not only look at the type of product and the quality of the product and price, but also to make sure that we are covered on all the legal points, so if we

have any issues after the opening with one of the products, or if any of our guests [get] sick or [get] injured from one of these products, the liability indemnity insurance will cover both the vendor and us,” says Raulea.

Third party liability indemnification insurance is something Marriott seeks out during the contracting process, but in the Middle East, this is challenging, says Raulea, with serious education needed on the matter.

“I don’t think it was ever requested by any other hotel company. Local companies were not used to being asked for this. It’s not cheap depending on what specification you ask for. You need to have a certain volume of business with these vendors in order for them to be able to afford it, but at the same time if it comes from the major hotel chains and you combine the business from several other hotel chains, it’s going to be easier for them to procure the insurance,” he suggests.

That said, the Middle East fortunately doesn’t suffer from the same ‘compensation-culture’ that is prevalent in some Western markets. However, there are rare occasions in which a customer could decide to sue one of the region’s hotels, and Marriott simply doesn’t want to take that risk.

“I’d prefer to pay slightly more and be covered, rather than once in a while pay five or six million to a customer who gets food poisoning from a product that was not quite covered,” Raulea admits.

Johnston agrees that it’s “extremely important” to have the right sort of insurance. “It really comes down to using reputable suppliers,” says Johnston. “Bigger suppliers will have three or four different distribution facilities with 30 or 40 trucks and several hundred employees and audits for their facilities where they use not only UAE standards, but European standards as well... and [they] have all their ducks in a row. As part of our supplier registration process we’d ask for copies of whatever insurance policies they have,” he says.

7. Contracting process

While the survey and interviews reflect a fairly robust approach to supplier selection, the contracting process seems to be less comprehensive. Only 24% of respondents say they do credit checks on new suppliers, only 44% request and sign quality assurance agreements and just 26% link payment to the fulfilment of quality assurance standards.

On the plus-side, 84% inspect supplier facilities, 82% ask for references, and 73% gain pre-approval on vendor samples. Still, surely for the vast majority of products, one would expect all of the above to be a matter of course during the contracting process for 100% of suppliers?

Contract clauses, too, look like they could do with some attention, an area in which procurement would be advised to work more closely with their legal departments. While 87% of

procurement managers said their contracts include Service Level Agreements, only 58% feature penalty clauses for under-performance. Nearly half of all contracts do, however, feature a problem resolution platform.

Sub-contracting is also a risk, and as such, the InterContinental Hotels Group Dubai Festival City properties, have recently added a clause to their contracts, reveals Stélios Damianélis, the cluster’s director of procurement. He notes past investigations into problems with suppliers have revealed a sub-contractor was used.

“This year we are writing a special clause that nobody is allowed to sub-contract without our written consent. We’ve done something like 25 contracts from 1st January to date and they’ve all agreed to that,” he says.

At Fairmont Raffles Hotels International Hotels & Resorts (FRHI), executive director and head of global procurement, Mubashar Shahab, who has been based in Dubai for the past two years and is a long-time advocate of the value of long-term supplier relationships as the absolute priority for procurement, says that it is essential to ensure contract templates are clear for both sides.

At FRHI, Shahab oversees 550 supplier partnerships, and heads up procurement for 130 operating hotels, comprising around 48,000 rooms, and another 80-100 hotels in the pipeline.

“There’s no use having an agreement template done that only covers your interest and does not cover the other side’s interest, otherwise you go back and forth with the lawyers because they want to cover their side. If you understand what their side is looking for, then you should cover it in the best possible way,” says Shahab.

“That’s why we can sign agreements in a week, we can flip them around very quickly. Our agreements are easy to understand; we try to use the simplest language. Lots of these suppliers don’t have a big legal network or it will cost them money to go through it. It has to be a mutually beneficial policy, it seems to work very well for us,” he says.

Meanwhile, Atlantis the Palm has an end-to-end contract management system called the Contract Lifecycle, which is a software that helps procurement draft a contract with all the clauses and relevant colleague input. It’s a “collaborative working portal” that gets feedback from the relevant department and input from the legal team ahead of internal approval online.

“Then we go to the next stage which is more important – it helps us on financial and legal compliances, it helps have the contract available at the click of a button for the entire company. It helps us on supplier performance evaluation. You can track the agreement, what was performed and what was not, what was exceeded. And last but not least, when it is due for renewal, it sends a notification to us, and to the supplier, so there are many elements that are automated,” says Singh.

8. The challenge of clustering

Pressure on contracting, specific to the Middle East, can arise from the fragmented nature of the supplier market and the challenges posed by its unique sub-regions. The assumption that the larger chains benefit because they can cluster properties isn’t always correct. Marriott’s Raulea says hotels in Middle East will likely have a wider pool of suppliers than elsewhere, in the US for example, where he says “contracting is much easier”.

“In the US, it’s a totally different ballgame because it’s a huge

“ONLY 24% OF RESPONDENTS SAY THEY DO CREDIT CHECKS ON NEW SUPPLIERS.”

territory with the same currency, you don't have taxes between states, like custom duties here, so it's much easier. You have vendors that can support the whole continent," says Raulea.

The UAE is Marriott's largest cluster in the Middle East, with eight hotels open, increasing to 10 soon. In Oman, its two hotels are 1,000km apart, so they rarely use the same suppliers.

"In the US we buy tonnes of meat and poultry from the same vendors. Here I would not be able to do that, I can do it for the UAE for example, but I have different vendors in Qatar. In Cairo, there are different custom duties etc, so it's a bit more difficult to leverage."

At InterContinental Hotels Group, InterContinental Dubai Marina director of procurement Pushpa Nair reveals she is spearheading a clustering process. There is not currently a regional procurement team, due to the owner approval required on capital purchases, which adds another layer to the process. However, even if owners have their own views on suppliers, Nair says they are not going to turn down a better price secured by virtue of the IHG's brand. At the same time, she believes suppliers prefer to work with a large chain directly rather than individual owners, assured by the payment processes of the bigger companies.

"For me, it's all about the general managers getting involved rather than leaving it up to the procurement level because it's the general managers or corporate office that will talk to the owners and explain it is for their benefit," she says.

It's also given benefit to IHG's Oman hotels, which Nair has brought under the umbrella.

"I've rolled out a cluster for Abu Dhabi and Dubai and even included Oman, which is very successful. Oman doesn't have the market we have so at least they can make use of those prices we have secured from the same suppliers."

Hotel owners of multiple properties may opt to cluster too, something that was initiated by Vinay S. Rao, group purchasing director at Abjar Hotels International LLC, 10 years ago. Abjar owns nine operating and three upcoming hotels, including Ritz-Carlton Dubai, plus hotels under the Sheraton, Crowne Plaza and Ramada flags.

"We drive all centralised contracts from my office," says Rao, which has enabled Abjar to downsize the teams in the hotels. "We cover 70-80% of the products; most of the high value items are negotiated by us. We reduced cost. It's a buyer's market, there are so many options."

He explains that for high-value items, at least eight to 10 vendors are considered rather than the traditional three and says the process is always transparent because as an owner, it is liable to be challenged by hotel operators who think they can get the same item cheaper.

"We negotiate the contract, we share it with the hotels and they have to implement it," says Rao. However, he acknowledges that "there will be suppliers who lose out, who will go to the hotel, give a discount and try and get through the back door".

9. Involving internal stakeholders

Generally speaking, one of the aims of the procurement professionals interviewed was to move procurement from being a silo into a more integrated part of the business, particularly at a property level. As such, operations departments need to be brought into the decision-making process also, at least at the product review stage.

"I'VE SEEN A PRODUCT RECENTLY WITH A LABEL THAT SAID IT CONTAINED A PERCENTAGE OF A CERTAIN PRODUCT, BUT WHEN WE DID THE TESTING THIS WAS COMPLETELY DIFFERENT."

This is even more important when products are being sourced with the intention of finding something that can be a brand standard, which could be a consumable such as coffee or furniture, fittings and equipment (FF&E), such as a bed, as well as internal fittings, from light bulbs to door locks.

"We do sampling, with culinary, rooms, operations etc, we compare samples and take decisions as a team and launch it as a product for all our hotels," says Raulea.

"In cases of food it makes sense to do blind tasting, in cases of linen we send it for laboratory test in Europe. You cannot just compare it by looking at it. You need to compare it by strength and how long the product is going to last," he adds.

These lab tests are vital, says Raulea: "I've seen a product recently with a label that said it contained a percentage of a certain product, but when we did the testing this was completely different."

At IHG Dubai Festival City, Damianélis also says they are "trying to be more operations-oriented". While everything related to sourcing remains the sole responsibility of procurement, he says they are now working on quarterly supplier reviews and programmes that involve all departments in big projects, for example, the outsourcing of the car valet.

"Procurement was usually a cut-off department," he says. "The perception was that procurement was just trying to buy it cheap, which is not what we are trying to do. We are trying to change people's perceptions that we operate like that. We're focusing more on quality rather than price. It's all about getting the right product at the right price; that is our motto for this year."

He adds: "The vendor's list is being revisited with all our heads of departments on a quarterly basis; that's a best practice we are trying to start here and apply for all the IHG properties".

Atlantis and FRHI already have fairly robust internal stakeholder programmes in place. "We call it, 'stakeholder management,'" says Singh. It is very specific and targeted. We need to understand their needs and requirements and the way we need to address the functional requirement of each department.

"Stakeholder management is the need of the hour. You cannot run such an organisation just because you think you have a better idea. You have to gather the ideas from your different stakeholders, put them in a bucket, filter them out, select what works best for your business, and apply it," he adds.

Shahab says procurement has to have “full endorsement” from the business. “That’s the key for the success of our suppliers and our strategy is we don’t make decision ourselves. We make collaborative decisions within the company.”

Shahab says “certain basics” need to be done and the best prices and products sought, but that the problem comes when a decision is then made on this and enforced on a department. After all, as he says, procurement “has a little bit of knowledge on a lot, but nothing in depth”. The specialists must be involved, he asserts, though the agreements are managed by procurement.

10. A three-quotation business

Despite having all of the above factors in play, it is an unfortunate fact that decision-making in hotel procurement often comes down to a three-quotation model. By its very nature, sourcing three quotes inevitably puts the focus on cost, which nearly always outweighs all the other influencing factors. Too often, the cheapest wins.

Earlier in this report, Atlantis’ Singh suggested that 2016 was a time to reinvent the way in which things are done in procurement. An area in which he is most passionate is around this three-quotation model – and the need to revise it. It has its place, of course, but surely this should not be the only way to do business? “Traditional procurement used to work on a three-quotation business,” says Singh. “And today, most organisations are still passionate about a three-quotation business and I really think, is that the right thing to do?”

“We are currently sick and tired of this three-quotation business, so we are focused on working out what we can do to make things faster and make the appropriate and right decision in each transaction,” says Singh.

Singh’s team sends 100-140 purchase orders a day; multiply that by three and, in any given week, the 14 people that comprise this team could be sourcing a staggering 3,000 quotations. It’s a “monotonous process” and simply not the best use of their time, says Singh.

Compare this to the retail business, he says, where websites such as amazon.com and souq.com enable shoppers to make decisions in a matter of minutes, comparing product descriptions, prices and reviews side-by-side.

“The use of technology is helping you to make your decision faster, more easily, and more accurately. So the use of technology is very important at this point of time and any procurement strategy has to address that issue,” says Singh.

The emphasis on cost that comes from three-quotations is also something that concerns Raulea at Marriott, who prefers to focus on quality. He highlights examples in Dubai, such as La Petite Maison and La Serre, independent restaurants that he says have clearly invested in quality products, which he thinks has an impact on the customer experience and the price they are willing to pay for that experience.

“I think it is important to focus on quality,” he says of his 2016 strategy. “With the competition that you have, depending on the market, but especially in Dubai, customers really look for quality; it’s important how much you pay, but if you get the right quality people will pay for it,” he asserts.

It could be the supply-side of the industry that ultimately renders the three-quote process redundant, as more and more suppliers show willingness to be transparent on prices as well as share their fixed costs.

“More and more suppliers are going to an open book model, which is definitely where a lot of the bigger [brands] in the region are headed. It does make it easier especially when there are so many products on the market,” says Johnston. “There’s a need to preach consolidation and use as few suppliers as possible, while still trying to maintain a market-driven price point. At the end of the day, when there are 30 suppliers in the market for certain products, it’s really about which company will bring you most value.”

This reflects the way that FRHI has worked for several years now, and for Shahab, it is about prioritising the long-term over the short, the strategic over the tactical.

“The Middle East is still very old fashioned, in many ways they are far behind many other countries,” says Shahab. “They will still go and get the three quotations. The supplier knows it is a short-term thing and he is only getting it because his price is better – you forget the overall value.”

Instead, Shahab has focused on training his team in “the overall value or lifecycle value of a contract” and achieving transparency with suppliers.

“We conduct our business a little bit differently because we place great value in supplier partnerships and we work with them as a partner in the long run,” says Shahab. “We never look at it as a short-term partnership, it’s always a long-term partnership,” he says.

“We feel just pricing is not the right way to go, there is more to it. If you focus 100% on pricing, which many of the organisations do, it doesn’t work,” he asserts.

“It’s not that we are soft on negotiations, we are pretty rigid, but when we negotiate we want the supplier side to have full confidence to share confidential information. So many of the deals we do are a cost-plus deal. That means we have the visibility to a suppliers cost. We have to allow them to make money on those costs,” he says.

At the same time, FRHI will share full details of its pipeline properties with suppliers, ensuring a two-way relationship. It also offers special rates to suppliers on rooms, and in turn, suppliers give special rates to FRHI employees, which generates revenue for them and creates brand ambassadors for their products.

“BY IT’S VERY NATURE, SOURCING THREE QUOTES INEVITABLY PUTS THE FOCUS ON COST, WHICH NEARLY ALWAYS OUTWEIGHS ALL THE OTHER INFLUENCING FACTORS. TOO OFTEN, THE CHEAPEST WINS.”

“The stuff our employees bought represented \$3mn last year,” says Shahab.

Singh echoes the value of this two-way approach. “The idea of partnership was always important, but people do not really understand [its full benefit]. You are running a business and interacting with other businesses and that partnership helps and contributes to your strategic goals. Our partners help us to do things better,” he says.

11. The outsourcing option

With reducing costs a key consideration in 2016, one of the ways in which to save, according to Damianélis, is via longer-term outsourcing contracts. Damianélis is responsible for procurement at InterContinental Dubai Festival City, InterContinental Residence Suites Dubai Festival City, Al Badia Golf Club Dubai Festival City and Crowne Plaza Dubai Festival City, with a fifth confirmed hotel upcoming, Holiday Inn, next to Ikea with 520 rooms. His team sends around 55,000 purchase requests each year.

“The target is to save as much money as possible, but this year it is even more important as the market is not in a good situation right now,” he says. “Part of that saving is outsourcing as many services as possible. But that’s a double-edged [sword] in a five-star environment. We have outsourced the transportation – the airport pick-up, drop-off, limousine service. It’s the first and last point of contact for the guests, so it’s very important to make them feel welcome and make them feel appreciated when they leave.”

To get the service right, Damianélis says these sorts of contracts are normally for a minimum of 24 months, because the contractors will need to invest significantly in the people required.

At Abjar Hotels, Rao says they have been outsourcing the likes of security and staff transport for a long time now, “reducing costs by something like 30-50%” when the first security contract was implemented.

In the *Hotelier Middle East Procurement Survey*, 78% of respondents said their property outsourced gardening or landscaping and 66% percent of respondents said their business was looking to outsource the entire laundry operation. Twenty percent said they would like to outsource the management and maintenance of IT infrastructure and applications; 24% would outsource the management and maintenance of engineering systems; 12% looked to outsource housekeeping, and 2% said they were considering outsourcing procurement.

However, 13% said “there was no compelling argument to use third party service providers” and 49% said the biggest chal-

lenge in shifting back-office roles to an outsourced function was “a lack of qualified third party service providers”.

This brings us to the use of procurement companies, favoured more by owners or those operators with large pipelines and pressurised timelines.

From the owner’s perspective, Majid Al Futtaim Properties senior manager, procurement – hotels, Daniel Lapeyre, the sole procurement person for the hotels division currently working on the first Aloft hotel in Dubai, says that once he receives a brief from the hotel brand and interior designer, he will brief a procurement company to assist with sourcing.

There can be challenges with both briefs; firstly, he is reliant on receiving the right specifications from the designer, and secondly, depend upon the procurement company sourcing the goods required, most importantly, to the timeline specified. Lapeyre says there have been “several cases in which interior designers have not fulfilled their scope of work”. Usually, he says this is because they employ people with no experience of working in hotels.

“They need to understand what they are doing because they are failing in this,” says Lapeyre.

Overall, he says the main challenge with regard to working on procurement for new builds and renovations is the timely delivery of product, with risks again being posed by ill-trained people within the procurement companies.

Damianélis says IHG tried outsourcing some procurement in Festival City a couple of years ago via a partnership with a British company called PSL, which he says has a very successful business model in the UK.

“Two years ago, we tried to outsource a part of our procurement related to food and beverage,” he says, adding that PSL’s premise is simple – that it will keep a percentage of the amount it saves the hotel. “It’s a win-win situation, however, this was something that was very difficult to apply in the Middle East.”

The challenge was due to the number of suppliers in the region and the trend for smaller companies to set up, then leave once they’ve made a quick profit.

With renovations or new builds though, Damianélis says IHG is likely to use a third party procurement firm. With the forthcoming Holiday Inn for example, there is a strong chance IHG will turn to a third party procurement partner.

12. Supplier performance review

To gain a general picture of whether the industry is happy with the state of the supplier market, the *Hotelier Middle East Procurement Survey* asked respondents to rate the quality of their business relationships, and their overall satisfaction with various types of suppliers, from one to five. Generally, local suppliers fared better than international suppliers, particularly for food and beverage products. For example, 20% of respondents said they were “very dissatisfied” with their international beverage suppliers, while nearly all other supplier types were either not ranked in this category or received only one or two “very dissatisfied” comments. Overall, procurement personnel seem satisfied with the supplier landscape with complete consensus that any product needed can be found in, or delivered to, the UAE.

The generally tolerable sentiment on the quality of business relationships with suppliers is perhaps down to a lack of proactive management of these relationships on the side of the opera-

“20% OF RESPONDENTS SAID THEY WERE “VERY DISSATISFIED” WITH THEIR INTERNATIONAL BEVERAGE SUPPLIERS.”

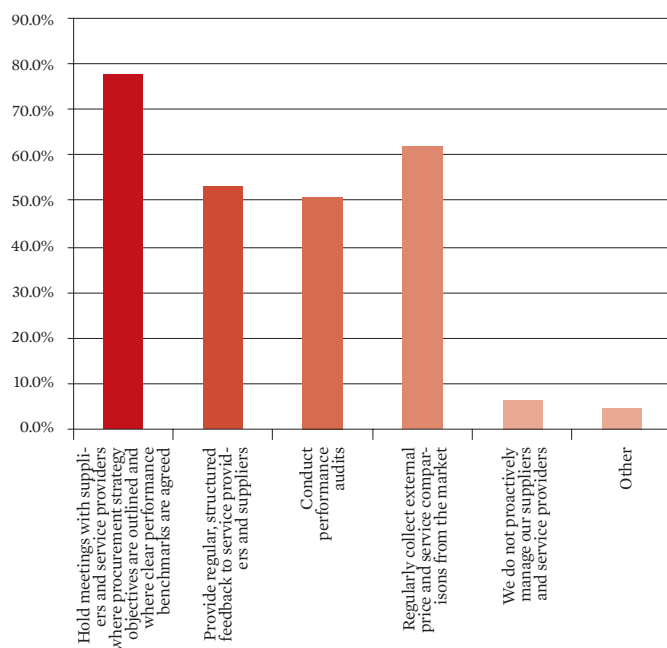
tor. Only half of respondents conduct “performance audits” and the same number say they provide “regular, structured feedback to service providers and suppliers” (See Fig 4). That means half of procurement professionals are not doing this – which is worrying.

A more positive number say they “regularly collect external price and service comparisons from the market” and more than three quarters of those surveyed say they hold meetings with suppliers to agree performance benchmarks. However, if adherence to these benchmarks is not routinely tracked and monitored, these meetings run the risk of being time-wasting formalities rather than good business practice. Three respondents admitted that they don’t proactively manage their suppliers at all, so there are clearly gaps to be filled on this front.

Three years ago, Atlantis the Palm established a software-driven Vendor Performance Evaluation programme utilising iPerform by Zycus, designed to foster long-term relationships with suppliers.

“We put our trust in them and we get the reciprocal support and feedback from their side,” says Singh. “We evaluate what they did well and not so well based on what was agreed in the contract and what was delivered during the contract.”

FIG 4: How does your property, or hotel chain, proactively manage its suppliers and service providers?



There are benefits to the vendor, who understands better the expectations upon it, and for the procurement team, as Singh says it has saved a lot of time previously used on follow-ups.

FRHI also conducts a formal review process, which is carried out twice a year, and follows a pre-agreed agenda. Shahab says this is a big commitment on resource, but vital to do, as is the follow-up on the action points that arise. It works with one person from each supplier as a global key contact, who acts like a “traffic cop,” says Shahab and co-ordinates communication. Relationships are then also formed on a regional and local level.

There is another process for issue resolution, which starts locally, before following an escalation process to regional level

if needed. In the vast majority of cases, the review process and clear contracts mean most issues are “resolved there and then”.

Shahab says he can count on his fingers the number of times in his eight years at FRHI that he has had to reach out to the president of a partner in order to resolve an issue, and says that at no point during that period have any court proceedings had to take place.

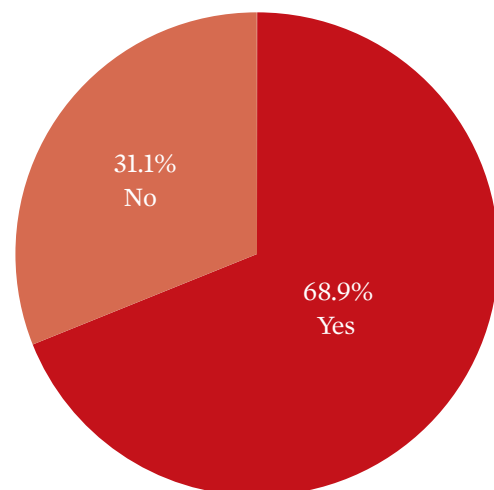
13. The software solution

Managing a proper supplier performance review system is obviously easier with software. But despite several off-the-shelf models on the market, including Materials Control, FDN and Birchstreet, nearly one third of respondents revealed that they did not use any procurement management system (See Fig 5). Drilling down further into this third, it was evenly split between respondents from international chains and local operators, revealing that it is an industry-wide issue.

Alarming, the most commonly used “software system” for managing every aspect of the procurement process, from supplier scouting and tender handling to contract management and catalogue management, all the way through to order management, payment and accounting, was a “self-made spreadsheet based system” (See Fig 6).

“They need to get on track,” says Johnston. “If you want to know how many chicken breasts you’ve used in a year with three or four clicks of a button rather than going through all these Excel spreadsheets and audit payments, surely that’s preferable?”

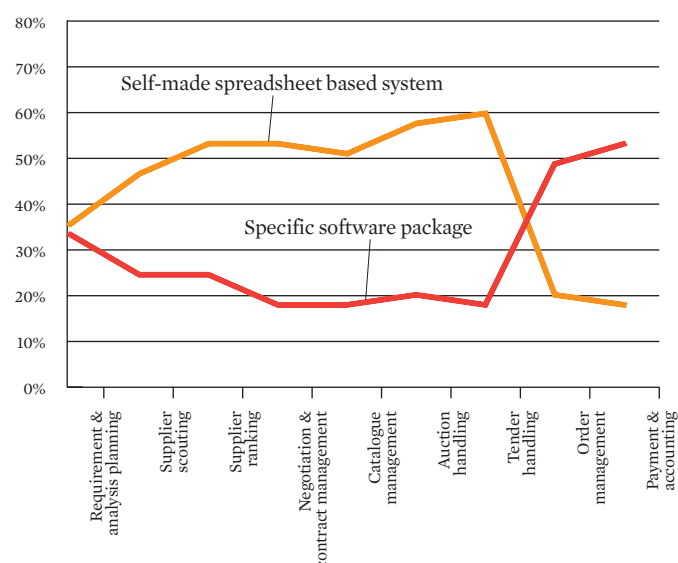
FIG 5: Does your firm use a procurement management system?



Less than one fifth of the respondents said they used any form of enterprise resource planning software, and even smaller numbers used a cloud-based software application. The most common type of software used was specific software packages for order management and payments/accounting.

What’s perhaps worse is that, of those companies that do have software in place, most admit to these being grossly underutilised. Rao says that software, which could generate much needed data and analysis, is underutilised mainly because procurement teams are overloaded and under-resourced, and need more training on how to use the systems.

FIG 6: Graph showing widespread use of simple 'self made' spreadsheet based systems, versus 'specific' procurement applications across core business processes in hospitality procurement



Johnston estimates the UAE is “maybe five years” behind Europe and the US when it comes to the use of software.

He says there is great off-the-shelf software, advising against developing in-house. Software can integrate various aspects of the business, from linking menu engineering reports with point of sale [POS], and linking receiving with inventory management. Live inventory could all be online linked to the POS, reducing overstock and waste, as well as preventing any nasty shortages.

“Software exists where all the invoices can be scanned in at the loading dock and be sent straight to accounting,” says Johnston. “Here the truck drivers turn up with a packing list and an invoice, then accounting has to print off the PO and prepare a cheque. Then the driver has to turn up to an office to collect a cheque; you’d never see that in the European or US markets.”

You need to really utilise these softwares that are available on the market to their full potential and not just buy a system and use the purchase order function of it, so you are not using 80% of it. That’s where Dubai needs to catch up.”

Such systems can help other departments to be more efficient as well, suggests Johnston, referring to marketing, events, conference and banqueting. The amount of time a chef will have to spend to price up all his ingredients, and work with sales and marketing as to how much extra they want to charge for holding an event, is considerable. Instead, a purchasing system linked with menu engineering could have all dishes priced out to the ingredient, so for an event request of 200 people, a chef could simply multiply the portion size and the system would draft a purchase order with all the suppliers listed.

“You can order a dish for 200 people in just a couple of minutes and know your final cost on that product,” says Johnston. “There’s lots of great stuff out there. It’s just getting the people of Dubai to adapt to it on the outlet side and the supplier side.”

Marriott is currently undergoing a project to move all of its hotels away from Micros Fidelio Materials Control and on to Birchstreet, which Raulea says will enable the central procurement team to act as a “big brother” to the hotels. Starting in 2015, all properties launched with this system and the deadline

to move the entire portfolio on to Birchstreet is 2017.

“First things first, we can access the system from the regional office and get consumption information. We can set up regional contracts with pricing set up in the system to make sure hotels are following it, and that’s the main benefit.

“You can set up standards when you have a contract with a vendor, and you say ‘we are going to use this product from this vendor and these are the prices’. The hotels will have it fixed and they will have to use these prices. We can control it. We can see what they buy and where they buy from and make sure they follow the programmes in place,” he says.

This should prevent hotels overspending, ensure prices are updated as and when they change, and help negotiations based on volume.

InterContinental currently uses a software application called FBN, though Damianelis says this is a fairly simple software.

“I think the reporting function of any ERP software is the most important aspect of it. It’s all about practically and the reporting function,” he says. “If I require historical data, such as the average price for tomatoes throughout the year, with material control; you can find it in 10 seconds; in FBN it will take maybe one hour.”

Johnston says that as increasing numbers of hotels invest in these systems, the suppliers will have to get on similar portals as well.

“They will need to start developing something like the amazon.com experience of ordering products, so it’s all based on an online catalogues,” says Johnston.

“The software has been there for six or seven years if not longer. A lot of it has to be managed by the supplier end as well. With all the changes in suppliers, stock issues, politics, etc, it’s just been a little slower to adapt. But I think give it a couple of years and hopefully we can get rid of that.”

Shahab agrees that the move to more software-led operations has to include suppliers. He admits FRHI used to use Excel software, which “didn’t work very well”, and has now developed a catalogue system in-house. The company started work with Birchstreet also, though this is now on hold in light of the Accor merger.

“One of the biggest drawbacks all hotel companies have is the data analytics,” he says. “Getting the spend data from the hotels, what are they buying, how much are they buying; nobody has a proper system available to get that.

“Birchstreet is quite powerful in the way that [it has] built an interface with the supplier, where they can upload the invoices, their pricing and their catalogue into the system, which you can also view from your hotel. We’re testing it in the Americas right now. We’re [putting] it in all the American and Canadian hotels

“THE UAE IS ‘MAYBE FIVE YEARS’ BEHIND EUROPE AND THE US WHEN IT COMES TO THE USE OF SOFTWARE.”

and [then] we can go back and look at exactly what the hotels are buying. The whole idea is [to check if] they are buying through your contracts,” says Shahab.

14. E-procurement, or Amazon for business.

E-procurement and e-bidding have been buzzwords for some time in the industry, yet according to the *Hotelier Middle East Procurement Survey*, they have yet to really be implemented. Fifty-four percent of respondents said they researched less than 10% of business online (See Fig 7). Four percent revealed they researched more than 50% of procurement via the internet and only one respondent said he researched more than 75% of procurement online. For these three respondents, research translated to transactions, but for the rest, 44% of respondents said that transactions actually conducted online amounted to less than 5% of total purchasing (See Fig 8).

As for increasing these percentages in the future, it looks like development of e-procurement is some way off, despite the forward-thinking of a handful of professionals (See Fig 9). While 31% of participants say they will move their procurement process 100% online in the next 12 months, 24% said it would take them two years, and nearly half, 45%, said the move would only happen within five years.

With the survey responses painting a bleak picture of a procurement industry hugely behind the times when it comes to both the use of sector specific software and online procurement, some figures from the Atlantis The Palm may surprise the reader.

FIG 7: Please estimate the percentage of your total procurement that is researched over the internet?

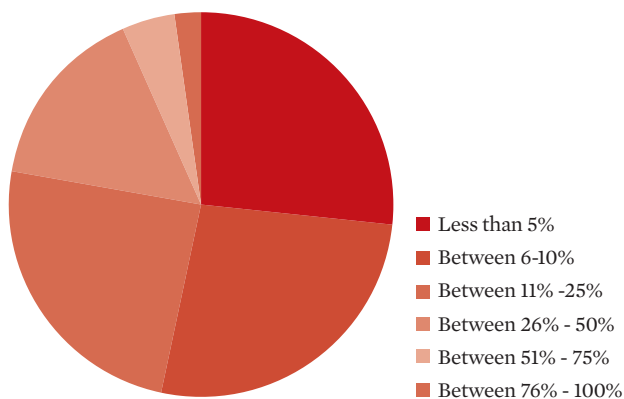
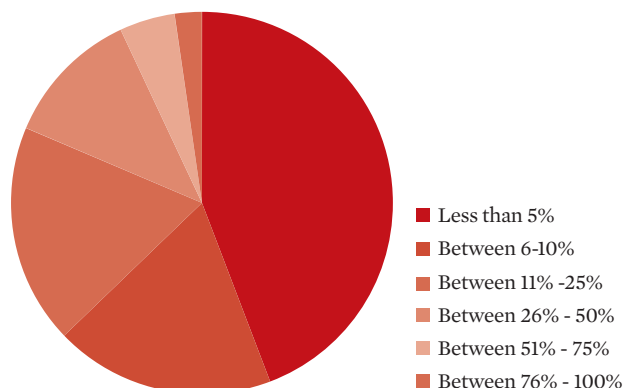


FIG 8: Please estimate the percentage of your total purchasing that is conducted over the internet.

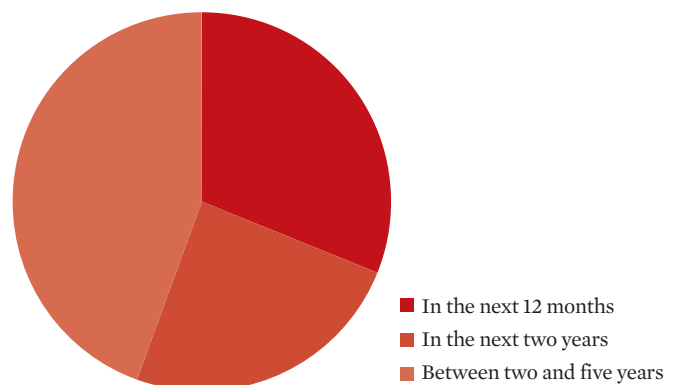


Here, online procurement comprises more than half of the business. “In 2015, we completed around 65 electronic bids,” reveals Singh, explaining these include direct services and consulting services. “The 65 bids generated substantial savings. Whatever our total volume, almost 60% of that volume has passed through the electronic competitive bidding process.”

Suppliers are pre-qualified beforehand and then, “it’s an open market”. Singh says the approach isn’t special, rather necessary, and believes others will have to move towards this to keep apace.

“Purchasing online helps you to make a smarter decision, and reduces the time it takes to make this decision,” he asserts. “The speed of delivery is most important for procurement; procurement is very slow. Maybe in some organisations it is fast enough for now, but in the coming year or two, it won’t be fast enough. You have to define and innovate that process.”

FIG 9: How quickly will your property or hotel chain move its procurement process 100% online?



“PROCUREMENT IS VERY SLOW. MAYBE IN SOME ORGANISATIONS IT IS FAST ENOUGH FOR NOW, BUT IN THE COMING YEAR OR TWO, IT WON’T BE FAST ENOUGH.”

He explains: “You ask for three quotes to establish the right price. But if you can establish the price via technology, that is open and competitive, then I’m sure it will give you the right price. I’m constantly thinking of what can be the best possible solution and the only thing that comes to mind and makes sense is to create an electronic way of putting competition online,” says Singh.

Most other chains, however, are less gung-ho on the matter. Marriott’s Raulea says people are willing to move this way and acknowledges that price transparency could make the life of a

purchasing professional easier, but says that, as of now, he has yet to come across a good enough system.

Raulea says he has previously met with companies that wanted to run online tenders for him, but that it wasn't cost-effective. The amount spent on the tender itself would outweigh the saving it generates. With Birchstreet installed now, he says it could be easier, but adds there are two other factors to consider.

One is the pre-approval process for online tenders. Raulea says that he has a record of about 80-90 linen suppliers, for example, but that only around half would be strong enough to supply the volume he would require.

"We need to do the due diligence on a supplier before getting it into one of these auctions. Otherwise it's a waste of time."

Secondly, some sort of paper trail would still be required in hotels with very hands-on owners "who often still want to see proposals and quotations to sign and stamp", says Raulea.

Nair agrees that a filtering process would be needed, revealing that IHG has tried e-procurement in the past with a procurement company called Tejari in a project led by the finance department, "but it was a big failure".

"At the end of the day we didn't pay a big amount, but the failure was not because the system wasn't good, it was because it doesn't suit the hospitality industry," she says, explaining that because every supplier is allowed to bid, decisions can be quickly made on cost, but receiving samples took a lot longer than if you had contacted a supplier directly.

Johnston recommends e-procurement for branded items, particularly in the food segment, and high value tenders. However, he says you may be limited as to which suppliers feature as "they have to pay to be part of this process".

"The advantage of live bids, especially on food, is that it is final, you don't change it. It also works well [from] an audit standpoint. If there are only three or four distributors for a branded product, you really get the best value, it's all transparent. I think on more generic items it's tricky, but I think on branded or high value stuff it works really well," he says.

At Abjar, Rao says he doesn't engage in online bidding or reverse solutions at all.

15. Transparency and integrity

It is quietly accepted in the hospitality industry in the Middle East that when it comes to procurement, a level of fraud and corruption exists. It is difficult to realise the scale of the issue and impossible to establish what this could cost hotels annually, but what the industry can do is discuss the various methods being taken by professional procurement experts to eliminate fraud in their business. In hotels, the audit function plays a large role, in regional office and on property level, in ensuring standard operating procedures (SOPs) are followed and checked, with external auditors employed as well at all large chains.

According to the *Hotelier Middle East Procurement Survey*, 60% of respondents said they had not been contacted by a supplier with any form of bribe in their current role and a similar number, 62%, said this had not occurred in their previous role. That is nearly two thirds of the industry, and fairly positive, though perhaps related to the seniority of the respondents. In addition, bribery is certainly not something limited to procurement and often, if a supplier is looking for something extra, it would circumnavigate the procurement function, targeting directly a receiver, or a chef, engineer or housekeeper instead.

"60% OF RESPONDENTS SAID THEY HAD NOT BEEN CONTACTED BY A SUPPLIER WITH ANY FORM OF BRIBE IN THEIR CURRENT ROLE."

At Marriott, Raulea says the Birchstreet project is another step in ensuring robust monitoring is in place, as it tracks exactly where product is being bought from, and by whom.

"If they are paying more than they are supposed to be maybe there is something to be investigated," says Raulea. "I think from the company standpoint we are secure."

Dream's Johnston says that "fraud is always going to exist in the market", no matter what software is in place.

"It's not as common in the US and European markets because not only are you dealing with software there, but you don't have a lot of small US and European suppliers. They have some of the largest food companies in the world and they are not going to waste their time trying to pay a chef, for example," explains Johnston.

"There are a few suppliers here that are quite unethical and it does make it unfair on the guys in town that are really trying to make it honest and fair. The open book model is going to give the opportunistic suppliers less and less opportunity to put in that kind of margin that would be paid to that colleague or receiver or purchasing guy or chef," he says, referring back to the trend discussed earlier that suppliers are now often willing to be transparent on costs.

Ultimately though, as with all industries, fraud is committed by people and it is only through the appropriate recruitment, training, and development of people that it can be eliminated.

"I think when you look at the pay scales of some of the purchasing executives, unfortunately temptation does exist sometimes," says Johnston.

"As the industry is more and more competitive you're going to need more professional people to work these kinds of jobs to really show value, so it will hopefully change eventually."

16. The power of people

Johnston is quite right; when speaking generally about challenges in procurement, a recurring issue was that of people – finding the right talent; recruiting and training them; motivating and empowering them; and developing and retaining them. An issue is that many junior and mid-level procurement professionals "land in their seat by accident", says Nair, estimating this to be true in 75-80% of cases, and are trained in the transactional processes of their job, and not much else. More needs to be done to develop people beyond this, so that they understand the value of a contract and its role in the business. After all, very often these people are working on contracts worth thousands, if not millions of dollars to their hotel.

"You should know how to negotiate, know how to read a

contract, know how to spot issues with contracts, and not just be someone that will take a sheet and do what it says,” says Johnston “It needs to be somebody that knows the whole cycle of procurement, from purchasing to actually ordering to following up on payments, deliveries and really treat it as a whole cycle – not just approach it with ‘I’ll get three quotes and order’”.

Nair agrees, saying that as the idea of negotiating on the lowest price is now outdated, so too are many of the skills in the industry, meaning that too often, procurement senior manager and directors have to get involved with very administrative work, a drain on resource.

Both Nair and Damianelis would like to be able to provide incentives for their teams, for example, with a percentage of the money they save being ploughed into training courses.

Skills can be developed through training, but the *Hotelier Middle East Procurement Survey* results reveal that only around half of companies are doing this (See Fig 10). In total, 56% of those surveyed said their organisation has invested in procurement-specific training in 2015, compared to 44% that answered negatively.

Of the 56% (See Fig 11) that experienced training in 2015, 76% said this would continue in 2016, with procurement training already planned. They said the main area of focus would be negotiation training (66%) followed by use of new software or services, supplier relationship management skills and new certification training.

On the flip side, that does mean that 44% of respondents experienced no training within their department in 2015. Of this group, 70% said they were not aware of any procurement-specific training in their departments in 2016, either. For the 30% that do have training planned this year, three quarters of this will be focused on supplier relationships.

17. Conclusions

The *Hotelier Middle East Hospitality Procurement Report 2016* clearly shows that the premise that ‘price’, and specifically, the ‘cheapest price’, is the critical factor in purchasing decisions is, thankfully, now outdated. The challenge today is to understand value over cost by analysing the quality of product, lifecycle of product, and reputation and knowledge of the supplier.

FIG 11: Is the organisation planning on offering procurement-specific training in 2016?

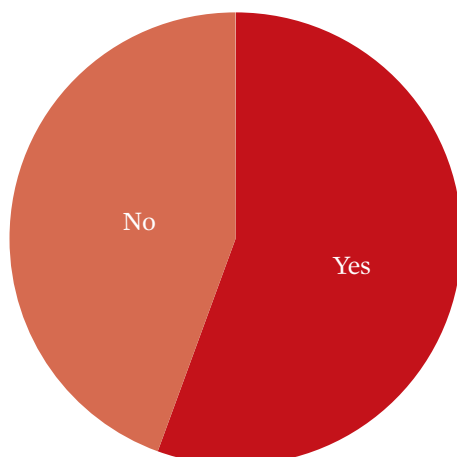
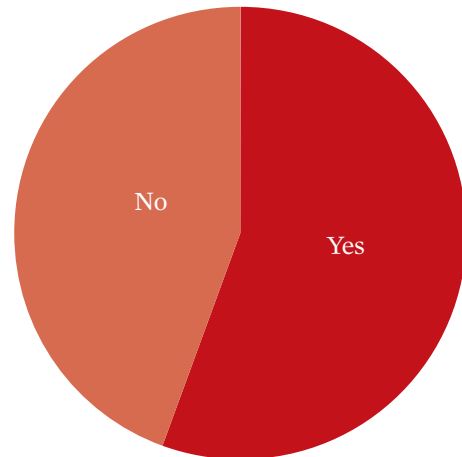


FIG 10: Has the organisation invested in procurement-specific training in 2015?



To achieve this, the industry will need to move towards a longer-term partnership approach with suppliers, where each party generates value for the other, and a more operations-oriented approach internally, to make sure the right people have an input on supplier selection and review. The *Hotelier Middle East Procurement Survey 2016* certainly indicates a willingness from procurement professionals to make these shifts and become far better integrated within the overall hotel business.

However, not every aspect of procurement is moving in this positive direction at the desired rate. One of the most alarming findings of the *Hotelier Middle East Hospitality Procurement Report 2016* is the revelation that analytics, monitoring and reporting is, barring very few cases, practically non-existent in hospitality procurement. Ask any regional hotel office today how many apples, pens or napkins one of their hotels purchased in 2015 and they will not be able to tell you. Neither will they be able to tell you how much these items cost, nor whether all the hotels in their group are paying the same for an item from the same supplier.

These numbers could be found eventually by trawling through accounts, invoices and audits, but this information is not tracked as a matter of course and does not sit at the hands of the procurement director. This poses a big risk to the future development of the function and potentially, even to the profitability of hotels. If procurement wants to move away from being a merely transactional service into being a strategic business function, then this is the most important area to address.

“ASK ANY REGIONAL HOTEL OFFICE TODAY HOW MANY APPLES, PENS OR NAPKINS ONE OF THEIR HOTELS PURCHASED IN 2015 AND THEY WILL NOT BE ABLE TO TELL YOU.”

18. Acknowledgements

Hotelier Middle East would like to thank the following for their contributions to *The Hotelier Middle East Hospitality Procurement Report 2016*:

Mubashar Shabab

Executive director and head of global procurement,
Fairmont Raffles Hotels International Hotels & Resorts (FRHI)

Bhanu Pratap Singh

Director of procurement, Atlantis the Palm

Pushpa Nair

Director of procurement, InterContinental Dubai Marina

Vinay S. Rao

Group purchasing director, Abjar Hotels International

Liviu Raulea

Director international procurement, Middle East and Africa,
Marriott International

Daniel Lapeye

Senior manager, procurement – hotels,
Majid Al Futtaim Properties

Brendan Johnston

Director of procurement, Dogus Restaurant Entertainment
and Management

Stélios Damianélis

Director of procurement, InterContinental Dubai Festival City,
InterContinental Residence Suites Dubai Festival City, Al Badia
Golf Club Dubai Festival City and Crowne Plaza Dubai Festival
City

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