



EGYPT TOMORROW ECONOMIC FORUM
Video Interviews

THE CORONA ECONOMY: CRISIS & OPPORTUNITIES

**EPISODE EIGHT: THE FOOD AND BEVERAGE
INDUSTRY IN THE TIME OF CURFEW**

*Interview with Ibrahim Nagi,
Founder & CEO of Desoky & Soda Restaurant Chain,
& member of Egypt Tomorrow Economic Forum;*

*by Ahmed Fahmy,
CEO of OneCard, & member of Egypt Tomorrow Economic Forum.*

*Interview Organized by Lobna Afify, CIPE Egypt Program Officer
on April 29, 2020*

Background: In response to the coronavirus crisis and the havoc it created on a global scale, CIPE launched a new video-based interview series title, 'Corona Economy: Crisis and Opportunities'. The series invites leading Egyptian business leaders, young entrepreneurs, academics, opinion-makers, and leaders of thought to share their perspective on the evolving situation and implications for the economy in general, and the business community in particular. The series provide insight and analysis into the economic and social impact of the current crisis, both at the macro and the micro level, and attempt to glean insights into the path ahead.

The transcript below has been condensed and edited for clarity.

INTERVIEW AT A GLANCE:

- 1. Implementation gap in licensing of restaurants and cafe.*
- 2. What is expected from business associations as a voice of business?*
- 3. Maintaining the business and employment at time of the pandemic.*
- 4. Multiple definitions for a small and medium business.*

Link to Arabic Video: <https://www.facebook.com/CIPEArabia/videos/3009553552445498/>

CIPE: Welcome to a new episode of the series, 'Corona Economy: Crisis and Opportunities'. The series is hosted by CIPE's Egypt Tomorrow Economic Forum "Masr Bokra". Today's episode focuses on one of the sectors that faced significant challenges during this crisis—the restaurant industry. We are fortunate that our guest today, Ibrahim Nagui is not only a restaurateur, he also has a medical background. Mr. Nagui is the founder of Desoky and Soda and a member of "Masr Bokra". He will be interviewed by one of the founding members of "Masr Bokra" forum, Ahmed Fahmy, who is the CEO of OneCard. Before asking Mr. Fahmy to start the discussion, we would like to thank them for being here today.

Fahmy: Hello everyone. I would like to start off the episode by asking you Ibrahim to tell us more about the coronavirus precautionary measures that Egypt has taken in the restaurant industry.

Nagi: Beginning March 15th, with the emergence of coronavirus cases in Egypt, the government started taking incremental measures to deal with the crisis. On or around May 15th, the government directed restaurants to adopt some precautionary measures regarding size of gatherings and the use of disposable flatware. That said, this guidance was informal, and I believe, it was not adhered to by everyone. However, On March 25rd, with the imposition of the night-time curfew, the government decided to shut down restaurants and cafes; while it started off with a total shutdown, a partial opening followed and some operations were allowed. For example, the ban on the delivery service during curfew hours was lifted, and restaurants were able to resume a 24-hour delivery service. Further, with the decision to extend the night-time curfew by two weeks, restaurants were allowed to provide takeout services. But I should add that there were no additional or more clear procedures that were taken by the government regarding the mode of operations in restaurants.

Fahmy: In this regard, are restaurants treated differently than cafes?

Nagi: Well, the issue here is that both restaurants and cafes in Egypt are subject to the same licensing regulations, thus, any guidelines or measures are equally applicable to both. It might be slightly different when it comes to other food establishment that serves only takeaway sandwiches or the like fast-food, these are subject to different licensing regulations.

Fahmy: So, any measure that targets cafes will necessarily affect restaurants?

Nagi: Correct, and this works the other way too— any measure that targets restaurants will affect cafes.

Fahmy: Should not the government have separate licensing regulations for restaurants and cafes?

Nagi: Indeed. We have been talking about this issue for the past year. Earlier, the authority to license restaurants and cafes rested with districts at the governorate level. However, a year ago a law was issued, whereby the licensing authority of restaurants was transferred to the Ministry of Tourism; at the same time, districts retained the authority to license other outlets, including cafes, takeaway food outlets and all-day coffee shops. However, the law has not yet been enforced, and the situation remains confusing.

Fahmy: Could you give us a more detailed picture of how the precautionary measures affected the industry?

Nagi: Perhaps the biggest challenge that we face has to do with the decisions made by the government; in my opinion, in some instances, the decisions do not appear to have been carefully thought out down to the finest detail. For example, in allowing food outlets to provide 24-hour delivery service, one would not expect customers to place a delivery order in the wee hours, 4 am or 5am—usually the last order is delivered at 12 am, or maximum by 2 am. Thus, a challenge related to workers commuting from work during the curfew hours arose. Since the curfew runs until 6am, employers have to keep their workers in until then; this indeed poses a challenge and represents a significant burden on small food outlets. Thus, because of this issue, these outlets are not even able to take advantage of this privilege and they were impelled to shut down their operations before the curfew hours to allow their employees to return home; they cannot keep their workforce working 24 hours straight, which would be an additional burden, especially given their stagnant sales. To face this challenge, many in the private sector, particularly the restaurant industry, significantly cut their employees' pay, noting that workers in this industry, globally and not only in Egypt, are reliant on tips, bonuses and other allowances, such as transportation. In other words, while some decisions appear to be designed to support restaurants maintain sales by allowing them to provide services during curfew hours, yet, owners, are not provided with any tools to help them address challenges associated with this curfew.

Fahmy: How do you see the way out of such problems? Do you think their root cause is the lack of proper communication between government and the restaurant owners, or maybe poor communication between the restaurant owners and the relevant chambers of commerce?

Nagi: I think that it is a problem of coordination between four key players: the restaurants; the competent ministries, sometimes it is the Ministry of Tourism, other times it is the Ministry of Supply; the Ministry of Interior; and the chambers of commerce. I believe that in this particular case, there was not adequate coordination with the Ministry of Interior. This lack of coordination became very evident early on in the curfew, when we also discovered, that while restaurants were allowed to provide delivery services all day, the Ministry of Interior was not aware of this decision, and thus they were stopping food couriers for breaking the curfew rules. This issue was addressed when the Prime Minister clearly announced that food delivery was allowed around the clock, and restaurants began issuing letters to their delivery crew to use when operating during curfew hours. I have to stress here that this solution which

restaurateurs resorted to—the issuance of these letters or passes—was not based on any official policy; rather, restaurants acted on their own initiative and came up with an accommodating solution that satisfied both parties—the restaurants and the Ministry of Interior. I think, that a similar solution could have been developed to address challenges related to employees commuting to and from work during curfew hours; restaurants could have been asked to provide a means of transportation and equip it with a permit to transport employees during curfew hours.

While my comments are focused on the restaurant industry, but I know that medical doctors are also facing the same problem; if the medical doctors do not have his or her own vehicle, he/she faces a problem returning home during curfew hours as all public transportation is suspended during these hours. I think that the issue of transporting people was either overlooked or maybe inadequately explored during the curfew planning; the end result is that people struggled with travel during curfew hours, are left without viable alternative transport solutions.

Fahmy: *How did these precautionary measures affect sales in the industry?*

Nagi: To understand the sales statistics, it is important to draw a distinction between two categories of restaurants: the fast-food outlets, which rely primarily on takeaway and delivery, and the dine-in restaurants, which rely on premise services, where customers dine inside the facility. For the former, delivery constitutes 30-35% of the sales, takeaway constitute another 30-35%, and the remaining 30% comes from on-premise dining.

As for the dine-in restaurants, delivery does not exceed 15% of their sales, takeaway constitutes 5% and 80% is generated from on-premise dining. Thus, early on, when delivery was the only option available, total sales declined to 30% and 15% in fast-food outlets and dine-in restaurants respectively, actually, the decline was even more, going down to maybe 5% or 4% during the first week as customers were wary of delivered food, and people were not very aware or well versed in the measures that should be taken when it comes handling delivered food. However, this situation improved, and restaurants, both fast-food and dine-in, were able to get back to their pre-coronavirus sales from food delivery, as customers grew more comfortable and resumed ordering; this was also facilitated with extending the delivery hours. The resumption of the takeaway service coincided with the beginning of the month of Ramadan, which witnesses a total drop in sales anyway. So, in brief, from March 25th till this day, it is safe to conclude that dine-in restaurants are achieving 10-15% of their pre-corona levels, and fast-food outlets are achieving 30-40% of these levels.

Fahmy: *So, in a way, these precautionary measures worked more to the advantage of fast-food outlets than dine-in restaurants?*

Nagi: Yes. From the start, the measures were not too harmful to the fast-food outlets as they were to the dine-in restaurants. I can imagine that while fast-food outlets are suffering from reduced sales or liquidity problems, however, I do not believe they would reach the stage of incurring losses, it is more of a potential loss. You need to take into consideration too that the fixed costs in the case of fast-food outlets are considerably less compared to dine-in restaurants—the space is smaller, thus the rents, and they have fewer employees.

Fahmy: *Could you give us an idea about the difference between the operating costs, such as rent and labor cost, of a fast-food outlet versus a dine-in restaurant?*

Nagi: First, in terms of kitchen size, it is the same in both facilities. The differences lie primarily in the rent and labor costs. Dine-in restaurants require more dining space, which is usually three times larger than the space needed in a fast-food outlet, and thus, the rent is three times higher. More so, whereas these restaurants require professionally trained chefs, fast-food outlets train their kitchen staff on the job, and require fewer employees in their dining premises, thus by the same token, the labor cost is three times higher for dine-in restaurants.

Fahmy: *These differences further confirm your earlier point regarding the need to treat dine-in restaurants differently than fast-food outlets.*

Nagi: Yes, the differentiation has to be made clearer. In fact, even within the category of dine-in restaurants, there are differences that need to be recognized; restaurants operating inside commercial malls are different in terms of the rent they incur, the quality of service they offer, and the customers they cater to. Thus, there needs to be a well-defined tier classification system for dine-in restaurants to capture these differences.

Fahmy: *Could you share with us any of the short-term or long-term plans that you might have developed to mitigate the effects of the current crisis on your business?*

Nagi: Let me first start by saying that the first sixty days, we more or less invoke crisis management modus operandi. We do not make any long-term plans at this point. We basically focused on the crisis at hand from two angles: protecting our customers and adhering with the government's precautionary measures. During the first two weeks, we worked on understanding more about the coronavirus, and since it is first a health problem, we focused on coming up with measures to protect our customers and regain their trust in ordering during these times. We, and others, instated a number of precautionary measures, including, double packing and sanitizing orders, as well as establishing, contactless delivery; actually, there is nothing more that could be done towards this end. From the other angle, we worked towards complying with the government's measures, however, I need to mention that it was a challenge dealing with these measures, and we dealt with them more or less on a day-to-day basis, as they were changing. For example, early on, for some ten days, delivery service was not allowed during curfew hours, thus, we needed to work with half our workforce for half a work day. With the lifting of the ban on delivery services during curfew hours, you had to rework the allocation of our workforce to fit the new hours. I believe that relaxing the measures regarding takeaway services, we will be able to bring back more employees to work.

Fahmy: *How long do you think any company can sustain this situation? And how long can the economy survive that?*

Nagi: I believe no company will be able to sustain this situation for more than sixty days. As I mentioned earlier, companies will have to incur fixed costs irrespective of the size of their sales; even if a company came up with a creative idea to boost sales, they will be able to increase their sales from 15% to 30%, which will not even be enough to cover the salaries of their employees or rent. I think the first hit will be felt by the food industry suppliers, many of who operate under credit arrangements, and food outlets have incurred debts to industry suppliers. From March 25th, almost all these outlets stopped ordering from suppliers, and at the same time, they are not able to pay their debts.

Fahmy: *What about the situation of restaurants that have set up shops in malls? Did these malls attempt to help solve their rent problem, or did they contribute to it?*

Nagi: There was no one overarching approach taken by all malls to address the issue of rent—there was nothing to obligate malls to deal with this issue one way or another, it came down to the owner of the mall and whether the restaurant is a big-name business. Thus, in the absence of any clear guidance by the government on this issue, the process was driven by the negotiation skills of the tenant, its relative weight, and whether they enjoyed a well-established landlord-tenant relationship.

Fahmy: *This brings us back to the lack of coordination that you have mentioned earlier, particularly as it involves the chambers of commerce.*

Nagi: In fact, we have communicated with the chamber of commerce, which in turn communicated with the malls, however, at the end of the day, the communication takes the form of a request and not a directive.

Fahmy: *I would think then that we need the support of government to second the effort of the chamber of commerce.*

Nagi: My understanding is that the government, specifically the Ministry of Supply, has the prerogative to communicate with malls to defer rents; I believe the problem will really manifest itself during the month of May, as rents are usually paid on quarterly basis, thus, rents are paid up till the end of March; for the month of April, there was more or less a tacit agreement between landlords and tenants that rents not be paid, however, I do not expect this to happen with the rent due in May, landlords will request the rents, and I think the crisis is compounding rather than easing.

Fahmy: *Was the chambers of commerce clear in their communication with malls, in other words were they specific in their request?*

Nagi: Yes. The Chambers asked for the deferment of rent payment for the months of April and May.

Fahmy: *Let us move on to discuss the various initiatives undertaken by the government to mitigate the effect of the crisis on the economy. How did any of these initiatives help your industry?*

Nagi: I cannot say that there was any meaningful benefit that we incurred from these initiatives. However, I cannot blame the government for this. The government gave clear and simple instructions to banks to help small and micro enterprises working in the areas of tourism and the food and beverages industry. This brings us back to the problem I mentioned earlier regarding the licensing requirements in the industry. If we look at the way licensing is set up, you will find that 70% of the licensed enterprises are considered large or medium-sized enterprises—once you are registered, you will not be classified as a small or micro enterprise, even though that 70% of the enterprises are still in the process and have not been issued their licenses, because, as mentioned earlier, this licensing process has been moved to the Ministry of Tourism just a year ago. So, when you go to a bank to seek assistance, you are not able to take advantage of the support intended for small and micro enterprise.

Fahmy: *Before we conclude, I would like to hear your thoughts on how to strike a balance between protecting the safety and health of citizens and the preserving the economy?*

Nagi: I will wear two hats to answer this question. As a medical doctor, unfortunately, social distancing is important during the coming period. We also know that this situation is not going to come to an end any time soon— the coronavirus is not going to disappear, the idea that the virus would retreat in hot weather proved not true, and in the absence of a treatment or a vaccine, which will take months to reach, the situation will continue. So, as medical doctors, we know that people need to maintain social distancing. However, setting aside the economy, social distancing goes against human nature, and people will not be able to tolerate it for long. That said, we have to practice it ourselves, and keep reminding people of maintaining, and taking other precautionary measures when interacting with others.

As far as the economy is concerned, with the curfew and the limited transactions, I think the damage inflicted on society by such measures will exceed the damage inflicted by the virus, especially that with the discovery of the vaccine, the medical problem will be completely eradicated, but the economic problems will not be resolved.

Fahmy: *Thank you Ibrahim for your time.*

Nagi: Thank you and I am really very happy that I was able to join you today.



Ahmed Fahmy has more than 20 years of experience in the internet industry . He started his career as an Account Manager in one of the leading ISPs in Egypt “ YALLA ONLINE” a subsidiary of Olympic Group investment in the internet industry

He grew with in the sales track to become the Sales Manager. He managed many significant projects such as Hospital 57357 and Amr Khaled fund raising using the free internet number. Ahmed later worked in Mathal Holding a subsidiary of Olympic Group as the commercial manager handling all retail investments such as Benetton Outlets and Araek Furniture.

Today Ahmed is the CEO of OneCard the 1st Online Payment solution MENA, OneCard is operating in Saudi , Egypt, UAE, Jordan , Kuwait , Bahrain , Qatar and Libya .



In 2010, **Ibrahim Nagi** graduated from the faculty of medicine, yet his journey in the field of F&B had already started during his college years. In 2012 he decided to quit the medical practice altogether and start a career in management.

Ibrahim studied total quality management, six sigma & marketing before getting his masters in business administration from ESLSCA. Ibrahim is the founder/CEO of Creative Pan for F&B Management & Consultancy.