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Hotel Restaurant and Institutional (HRI) 2013

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Report Highlights:

Bangladesh's HRI sector is growing consistently at over 7.5 percent per annum, and has since 2008. The sector's contribution to the country's GDP was \$924 million in FY 2011-12, and \$843 million in FY10-11, which constitutes roughly three quarters of a percent of GDP. The bulk of demand in the HRI sector arises from Bangladesh's growing middle class population, now estimated at over 30 million. In 2009, Bangladesh attracted only 267,000 foreign tourists, making tourism a relatively small segment.

Executive Summary:

Though classified as a low-income country, Bangladesh is growing fast and aspires to middle-income status by 2021, the 50th anniversary of its independence. With economic growth of 8 percent per annum, Bangladesh has seen 7.5-percent annual growth in both the hotel and the fast food industries in recent years. Western companies have generally been successful when entering this market, especially in fast food. As is the case in the food processing and retail industries, regulation of fast food is in a developmental stage. In recent years the government has gone to great lengths to curtail the adulteration of food sold at fast food establishments.

Demand in the HRI sector arises primarily from Bangladesh's growing middle class population of over 30 million, of which 1.5 million reside in Dhaka. In 2009, Bangladesh attracted only 267,000 foreign tourists, making tourism a relatively small segment. Bangladesh suffers a shortage of hotels offering international standards. Though hotel and restaurant facilities are developing in major cities and tourist destinations, many provincial district towns lack quality hotels even for domestic visitors. Recreational opportunities, nightlife activities and other attractions are relatively scarce. Thus, demand for HRI services in support of tourism will depend mainly on development of the currently backward tourism sector.

General Information:

The HRI Sector in the National Economy

Bangladesh's HRI sector has seen consistent growth of over 7.5 percent annually since 2008, fueled by growth of the domestic middle class and the high rate of GDP growth. The sector's contribution to the country's GDP was \$924 million in FY 2011-12, and \$843 million in the FY10-11; however, this figure has yet to reach more than one percent of GDP.

The Daily Sun reported on January 7, 2013, that the Bangladeshi middle class is estimated at no fewer than 30 million (20 percent of the population), a number "more than the population of Sweden, Norway, and Denmark." Another study by the University of Dhaka indicates 31.3% (or 47 million) of Bangladesh's 150 million population may now officially be categorized as middle class, with an additional 4 million "rich or affluent." These estimates stand in contrast to the estimated 10 percent of the population considered middle class in 2007. Conversely, World Bank data indicate officially defined poverty has been reduced from half the population in 1996 to under a third today.

Tourist arrivals in CY 2010 marked a 13.58 percent rise compared to CY 2009, according to government statistics. International tourism receipts (in USD) were last reported at \$77 million in 2009 and \$103 million in 2010, according to a 2012 World Bank report.

Table 1. Bangladesh: HRI Sector in the National Economy at Nominal Prices

Indian Fiscal Year (July/June)	2007-08	2008-09	2009-10	2010-11	2011-12
HRI sector GDP, million taka at nominal prices	38,889	44,598	51,501	59,980	71,780
HRI Sector GDP, million USD at nominal prices	567	648	744	843	924
Annual Growth, in percent, base year 1995-96	7.55	7.58	7.61	7.55	7.60
Contribution to GDP, in percent	0.70	0.71	0.72	0.73	0.74
Average Exchange Rate, BDT = \$1.00	68.6	68.8	69.2	71.2	77.7

Source: Bangladesh Economic Review, 2012

Table 2. Bangladesh: Hotel and Restaurant Sector in the National Economy at Constant Prices, 2008-09 to 2012-13 (p)

Fiscal year (July/June)	2008-09	2009-10	2010-11	2011-12	2012-13 (p)
Contribution to GDP, million taka	23,405	25,186	27,087	29,141	31,364
Growth rate, percent per annum	7.58	7.61	7.55	7.58	7.63
Contribution to GDP, percent	0.71	0.72	0.73	0.74	0.75

(p) denotes provisional

Source: Bangladesh Bureau of Statistics, *GDP of Bangladesh at 2012-13(P)*,

http://www.bbs.gov.bd/WebTestApplication/userfiles/Image/BBS/GDP_2012_13.pdf

Available Bangladesh Bureau of Statistics (BBS) labor force survey data indicate that the labor force (over 15 years of age) employed in the country's trade and HRI sector (both organized and unorganized) in 2010 was 15.47 percentage of the total labor force, equivalent to 8.4 million people. Informed industry sources, however, indicate that the number of people employed in the organized HRI sector could be in excess of one million given the current state of the industry.

Hotels in Bangladesh

Bangladesh, especially Dhaka, now has a number of very new and modern hotels that specifically cater to western tourists and businessmen. Most of these have opened in the past decade, and a simple Internet-based travel search for hotel rooms in Dhaka indicates that they now predominate. Many of these establishments are owned outright by western companies, with the remainder emulating the edifices and services offered at western hotels, including food services.

Following independence in 1971, Bangladesh boasted just one 5-star hotel, the Dhaka Sheraton in the capital city. There were numerous small hotels in Dhaka and in other major cities, but the standards of these were far below the international level. In the mid-1980s, the Bangladeshi hotel industry began to

show signs of development. It was during this time that several international organizations and development agencies started their operations in Bangladesh, with the goal being to initiate and implement development projects. Consequently, the number of foreigner visits to Bangladesh rose sharply. This resulted in an increasing demand for quality hotels and other hospitality related infrastructure across the country.

During the same time period, Bangladesh emerged as a major ready-made garments (RMG) manufacturer and exporter, which triggered increased visits by foreign apparel buyers, garment accessory buyers and textile and cotton traders. Returning visitors became increasingly familiar with Bangladesh, and interest rose in vacationing at destinations such as the beach at Cox's Bazar or the Sunderban mangrove forest. Consequently, a second 5-star hotel, Pan Pacific Sonargaon, opened in Dhaka.

As Bangladesh became recognized as a low-cost manufacturing hub by the 1990s, the country welcomed an influx of foreigners supporting myriad investments in assorted industries. Thus, today Dhaka can boast of a number of 5-star hotels, including the Radisson Water Garden, Pan Pacific Sonargaon, the Westin, Ruposhi Bangla (formerly Sheraton), Sarina, and the Dhaka Regency. The city also is home to numerous 3- and 4-star hotels.

The second largest city in Bangladesh, the port city of Chittagong on the Bay of Bengal, has a rich history of maritime trade. However, prior to independence Chittagong could boast of only one 4-star hotel. Today, the city has numerous 4-star (including the Peninsula, Avenue, and Harbour View) and 3-star (including the Saint Martin and Asian SR) hotels.

The most attractive place for visitors and tourists in Bangladesh is Cox's Bazar, located 160 kilometers south of Chittagong and home to the world's longest natural sea beach. Cox's Bazar was a tourist destination prior to independence. To provide lodging and dining for both domestic and foreign tourists, Cox's Bazar is home to 5-, 4-, and 3-star hotels and guest houses. Saint Martin's island, in the Bay of Bengal approximately 25 kilometers south of Cox's Bazar, has seen increasing tourism and has numerous guest houses to support the industry.

Quality western-style hotels can be found in Sylhet, Khulna, and Bogra.

The Bangladesh Parjatan Corporation, a national tourism organization, runs 18 medium-sized motels in major cities and tourist destinations around the country. However, these are increasingly seen as unattractive to visitors due to low service quality when compared to private-sector facilities.

Hotel Sector Outlook

With the rise in income levels of the middle- and upper-class Bangladeshi population, in-country tourism has begun to develop quite significantly. Leisure and vacation are becoming a part of life to wealthier Bangladeshis, and this shift is contributing to the expansion of hotels, amusement facilities and eco-parks across the country.

However, many major cities still suffer from a lack of hotels. Foreseeing a significant opportunity, a number of local and international entrepreneurs have come forward with the necessary investment to

expand the sector in Bangladesh. Operation of the sole government owned 5-star hotel in the country, the Ruposhi Bangla, will be handed over to InterContinental Hotel Group (IHG) sometime in 2014. In February 2013, Marriott International signed an agreement with Jamuna Builders Limited of Bangladesh to operate the 700-room JW Marriott Hotel Dhaka. This hotel will be part of a mixed-use development that will also include retail and office components; construction of the complex is currently underway.

Restaurants and Fast Food

A western-style fast food industry began to appear in Bangladesh in the 1990s. Local entrepreneurs took lead roles in pioneering the fast food industry of Bangladesh, as new companies such as Swiss and Helvetia opened some of the first fast food shops in the country. In 2003, the first international fast food brand, Yum!'s Pizza Hut, opened a franchise in Dhaka. By 2006, another Yum! brand, KFC, had also entered the market. Yum! partners with Transcom Foods Limited (TFL), which has opened Pizza Hut and KFC locations in Dhaka (Gulshan and Dhanmondi), Chittagong and Banani in recent years. Other fast food chains in Dhaka include Swiss, Capital, Bamboo Castle, Palki, Dahlia, Golpea, Euro Hut, Golden Food and Domino's Pizza.

Dhaka boasts a significant number of restaurants offering various international cuisines, including Chinese, Vietnamese, Thai, Indian, Mexican, Swiss, Italian, and continental. Major restaurants with international standards and styles include Heritage, Asparagus, Bukhara, Saffron, Flambé, and Khazana. The majority of modern shopping malls in Bangladesh include this type of eating establishment.

Culturally, fast food is seen by Bangladeshis as targeting the youth as well as the urban/corporate workforce. Research at certain locations has shown that families with young children frequent fast food establishments. Major western firms are recognized by consumers as high-quality fast food, providing a popular array of complete meals and high standards of hygiene, cleanliness and affordable pricing.

However, in 2011 one major western fast food franchiser was warned for not providing quality food to customers and was fined \$337.46 by the country's Consumer Rights Protection Directorate mobile court. According to bdnews24.com, the government agency imposed the fine on the restaurant chain for keeping stale tomatoes in the refrigerator and not labeling weight and nutrition information on salad packets. Chittagong zone deputy director Zobayer Ahmed was assisted by the Bangladesh Standards and Testing Institution (BSTI) officials and a Police Rapid Action Battalion team in leading the inquiry. Speaking on the development, Ahmed said that the firm's fine amount was small given it was essentially a warning. He added that the firm ought to provide better service given that it is one of the top global firms, the website reported.

Though fast food is growing in popularity in Bangladesh, some franchises reportedly offer more limited menus in Bangladesh, especially when compared with India, which could be evidence of limited business and consumer research or logistical concerns. It may also be the result of the very hierarchical business structure in Bangladesh, where managers often are not willing to include employees in decision making processes or efforts to build ideas regarding a service or product. While management in Bangladesh may make autonomous decisions regarding the launch of new retail/fast food items, India's menu offerings are more varied and more affordable due to repetitive consumer research on food offerings. One major western fast food franchise in India may have up to 25 offerings, while in

Bangladesh the same firm has only 7 offerings.

Despite the rapid growth and expansion of the fast food industry in Bangladesh, there is thus far no evidence of an industry organization or a fast food owners' association.

Major Sector Developments

As a nascent sector, there have been some significant shakeups in the Bangladeshi fast food industry, as well as the entire food service industry. In September 2005, the government of Bangladesh started a major effort to identify and punish the individuals and organizations found adulterating fruits using pesticides or unauthorized food colors, selling food items that had expired, and committing other consumer safety violations. The government charged that this conduct posed a serious threat to public health and safety.

Many recognized restaurants and fast food shops were found guilty of infractions, and these events were highly publicized. This led to the general mistrust of Bangladeshis regarding the fast food industry, and a temporary halt in operation and growth. The result was that many small- and medium-sized fast food shops went out of business, and only a few restaurants, either high-end or franchised outlets, managed to survive. Overall, fast food establishments, especially in Dhaka, incurred heavy losses following surprise raids by mobile courts.

Generally, infractions included unhygienic conditions, adulterated products and/or outdated products being used in preparation and sale. According to the manager of a fast food shop in the popular Bailey Road area of Dhaka, the mobile court's raids and subsequent media reporting severely damaged the industry's reputation, resulting in the loss of almost sixty percent of business in a given month. Some proprietors reported that blackmail was common by the government officials. In Dhaka and elsewhere, this effort targeted not only fast food establishments but hotels as well. All told, more than one million taka in fines was levied, over two hundred cases were filed, and nearly two hundred people were jailed in connection with food adulteration cases.

Challenges and Limitations

Bangladesh straddles the Tropic of Cancer, with hot and humid weather that poses difficult challenges when developing the HRI sector, and especially international-standard hotels. Summer is very hot (34-40 degrees Celsius) and humid, followed by a long rainy season which is an inconvenience for western visitors and especially tourists. Tourists prefer to visit Bangladesh in the winter, generally from mid-November to mid-February when the temperature hovers around 20 degrees Celsius and relative humidity is around 60-70 percent.

Bangladesh is very densely populated, with over one thousand people per square kilometer. Maintenance of overused urban facilities is a challenge for municipalities, and Bangladeshi cities can be dirty, with inadequate and poor-quality roads contributing to the problem. Traffic congestion is increasingly challenging. Water quality is very poor in many parts of the country. Beggars are common, creating problems and occasionally posing threats to foreigners.

Other major challenges include limited availability of educated and trained professionals for operating

international standard hotels and restaurants; inadequacy of the air and ground transportation systems, frequent power cuts, and other basic infrastructural problems. For example, in a 2007 World Bank survey of businesses, 78.4% of respondents identified availability of electricity as a major constraint and reported an average of over 100 power outages per month; over half of responding businesses owned backup generators.