

**FEASIBILITY ASSESSMENT FOR  
ENTRY INTO SAUDI ARABIA'S  
SERVICE SECTOR**

**PRESENTED BY**

**JETRO**

---

## Table of Contents

Research Background and Objectives.....	9
Executive Summary.....	10
Economy with Positive Outlook.....	10
Foreign Investment in the KSA - Procedures .....	11
Franchising in the KSA.....	12
Services Sectors Outlook.....	13
Retail Sector .....	13
Food and Restaurant Service Sector.....	15
Hair Dressing and Beauty Service Sector .....	16
Education Service Sector.....	18
Medical and Social Service Sector.....	20
Housing and Construction Services Sector .....	21
Information Technology Services Sector .....	22
Facilities Management Services Sector.....	23
General Observations and Conclusions across all Sectors.....	24
Chapter 1: The Kingdom of Saudi Arabia .....	27
General Overview .....	27
Political Snapshot.....	27
Economic Overview .....	29
GDP growth rate .....	30
Nominal GDP per capita.....	31
Consumer Prices .....	31
Private Consumption Expenditure .....	32
Inward Foreign Direct Investment .....	32
Household Expenditure and Income.....	33
Penetration rates of consumer durables and services .....	34
Population Structure.....	34
Chapter 2: Company Registration Policies and Procedures.....	36
Foreign Investment Regulation.....	36
Procedures involved in obtaining company licenses .....	38
Rules governing Licences for Individuals and their Investor Visas .....	40

---

Investment Licence Cancellation Procedures .....	40
Activities excluded from Foreign Investment under the Services Sector .....	41
Franchising Market in the KSA .....	42
Market overview .....	43
Market Entry .....	43
Paid-up Capital .....	43
Registration time.....	43
Ownership structure .....	43
Cultural concern.....	43
Developing Franchise in the KSA.....	44
Foreign Exchange and Tax Law .....	44
Chapter 3: Halal .....	48
Current Status of Halal.....	48
Regulations of Halal and Procedures of Acquiring Certification.....	49
Saudi Halal Food Standards and Import .....	49
Business Model to Sell Halal in the KSA.....	49
Comparison of Regulations with other Countries.....	50
Islamic Bodies Worldwide for Halal Certification of Red Meat .....	53
The KSA Halal Market.....	53
Drivers and Restraints.....	56
Chapter 4: Actual Condition of Consumption.....	58
Characteristics and Purchase Need of Consumers .....	58
Major Business Locations.....	65
List of Shopping Malls (not exhaustive).....	66
Findings of Consumer Research to Understand Consumer Preferences.....	68
Survey Results of the Retail Service Sector.....	68
Survey Results of the Food/Restaurant Service Sector .....	69
Survey Results of the Beauty/Hair Dressing Service Sector.....	69
Survey Results of the Medical Service Sector .....	70
Survey Results of the Housing Service Sector.....	70
Brief Profiles of Japanese Service Companies in the KSA .....	71
Daiso.....	71
Beard Papa .....	71
Chapter 5: Service Sector in the KSA .....	72

---

Service sector Market Overview .....	72
Chapter 6: Retail Services Sector .....	76
The GCC Retail Service .....	76
The KSA Retail Sector .....	76
Retail Industry Segments .....	76
Major features of the Industry.....	78
Market Drivers .....	79
Market Challenges/Constraints .....	80
Key Market Trends.....	80
Major Business categories .....	82
Competition .....	86
Competitive Analysis – Porter’s Five Forces .....	87
SWOT analysis.....	88
Conclusions and Recommendations .....	89
Attractiveness of the Retail Sector for Foreign Companies.....	89
Attractiveness for Japanese Companies .....	89
Conclusions on Preferred Business Model.....	90
Recommendations on Locations.....	91
Recommended Organisation Structure .....	92
Recommendations on Marketing and Advertising Modes .....	92
Chapter 7: Beauty and Hair dressing Services Sector .....	93
Overview .....	93
Trends .....	93
Growth Drivers.....	94
Restrains .....	95
Challenges.....	95
Major Business Categories.....	95
Entry Regulation for Foreign countries.....	96
Permits and licences for entry .....	97
Competition (Major salons in major cities) .....	97
Competition Assessment .....	99
Barriers to entry.....	100
Recommendations and Conclusions.....	101
Attractiveness of the Hair and Beauty Dressing Services Segment .....	101

---

Need for Japanese Companies.....	102
Preferred Entry Model .....	102
Recommendations on Location and Branches.....	103
Recommendations on Organization Structure .....	103
Recommendations on Marketing and Advertising Modes .....	104
Pre-entry Procedures.....	104
Example of a Successful Foreign Company in the KSA.....	104
Chapter 8: Food Service Sector.....	105
Overview .....	105
Investment models .....	105
Drivers for Food service Industry.....	107
The KSA Population Profile .....	108
Challenges.....	110
Trends .....	110
Major Segments.....	111
Quick Service Restaurants/Fast Food .....	111
Casual dining Restaurants.....	113
Cafés.....	114
Company Trends .....	115
Entry Regulations for Foreign Companies/Permits and Licenses for Entry .....	115
Competitive Assessment.....	115
Barriers of Entry .....	118
Recommendations and Conclusions.....	120
Conclusions on the Food Service sector .....	120
Attractiveness of the Food and Restaurant Service Sector .....	120
Segment’s Attractiveness for Japanese Companies .....	121
Model of Entry .....	121
Recommended Organisation Structure .....	122
Recommendations on Location and Branch .....	122
Break-even Period.....	122
Recommendations on Marketing and Advertising Modes .....	123
Pre-entry Procedures.....	123
Case Study of a Successful Foreign Company.....	123
Chapter 9: Education Services Sector .....	125

---

The KSA Education System Overview .....	125
Government Spending on Education: 2014 .....	127
Private vs. Public School Enrolments .....	129
Tertiary Education.....	131
Technical and Vocational Training .....	131
Special Education .....	132
E-Learning .....	132
Trends .....	132
Drivers .....	134
Restrains .....	134
Challenges.....	135
Entry Regulations for Foreign Companies / Permits and Licences for Entry .....	136
Competition Assessment .....	136
Entry Barriers .....	137
Recommendations and Conclusions.....	138
Model of Entry .....	138
Recommended Organization Structure .....	138
Attractiveness of the Education Services Segment for Foreign Investors .....	139
Recommendations on Location and Branch .....	140
Recommendation on Marketing / Advertising Modes .....	140
Pre-entry Procedures.....	140
Chapter 10: Social Welfare / Medical Services Sector .....	141
The GCC Medical Services Industry.....	141
Key Market Trends.....	142
The KSA Medical Services Market.....	145
Market Drivers .....	148
Market Constraints .....	148
Government Initiatives .....	148
Competition .....	154
Competitive Analysis: Porter’s Five Forces Analysis .....	156
SWOT analysis.....	158
Recommendations and Conclusions.....	159
Attractiveness of the Healthcare Services Sector .....	159
Attractiveness for Japanese companies.....	159

---

Recommendations on Location and Branches.....	160
Recommendations on Advertising / Marketing.....	160
Recommendations on Business Model.....	160
Chapter 11: IT Services Sector .....	161
Global IT Services Industry.....	161
The Middle East IT industry .....	161
The KSA IT Market.....	163
Growth Drivers.....	164
Market Challenges .....	164
Competition .....	164
Competitive Analysis: Porter’s five forces .....	167
Barriers to entry for foreign players .....	168
SWOT analysis.....	168
Recommendations and Conclusions .....	169
Attractiveness of the IT Services Sector to Foreign Investment.....	169
Recommendations on the Business Model .....	169
Recommendations on Location and Branches.....	170
Chapter 12: Housing and Construction Services Sector .....	171
Global Housing Industry.....	171
The GCC Housing Construction Industry.....	171
Market Drivers: The GCC.....	174
Challenges / Constraints: The GCC.....	174
The KSA Housing Construction Industry .....	174
Market Overview .....	175
Growth Drivers.....	179
Major Market Constraints / Challenges.....	179
Competition .....	180
Competitive Analysis: Porter’s five forces .....	183
Entry Barriers Foreign Participants .....	184
SWOT analysis.....	184
Recommendations and Conclusions .....	185
Attractiveness of the KSA Construction Sector.....	185
Recommendations on Locations.....	186
Recommendations on the Business Model .....	186

---

Pre-entry Procedures .....	187
Chapter 13: Facilities Management Services Sector.....	188
Overview .....	188
End-User Market share-2013.....	189
Trends .....	191
Growth Drivers.....	191
Restrains .....	192
Challenges .....	192
Sub Segments.....	193
Entry Regulations .....	194
Major Players .....	195
Competition Assessment .....	196
Entry barriers .....	197
Recommendations and Conclusions .....	198
Attractiveness of the FM Services Sector .....	198
Recommendations on Location and Branches.....	199
Recommendations on Marketing/Advertising.....	199
Recommended Organization Structure .....	199
Recommended Business Model for a Foreign Company .....	200
Procedures for Registration of Foreign Company.....	200
Pre Entry Procedure .....	200
Chapter 14: Appendix .....	202
List of Sources .....	202
Company Laws and Procedures .....	205
Doing Business in KSA .....	205
Other Forms of Doing Business.....	209
Temporary commercial registrations and Representative Offices .....	209
Technical and Scientific Services Offices.....	210
Professional Partnerships .....	210
Companies and Partnerships .....	210
Commercial Agencies, Distributorships and Franchises .....	214
Competition Law .....	216



---

## Research Background and Objectives

JETRO, or the Japan External Trade Organization, is a government-related organization that works to promote mutual trade and investment between Japan and the rest of the world. Kingdom of Saudi Arabia (KSA) whose economy has been driven by its oil resources has in recent years began focussing on economic diversification by increasing the participation of private sector and this is clamouring the attention of foreign investors to enter the KSA market.

Services industry in particular open up enormous opportunities and is considered to offer great opportunities for newer market entrants. In this regard, JETRO would like to evaluate the potential and opportunities for Japanese companies in various service industries in KSA.

Frost & Sullivan, with its multiple teams of dedicated specialists track specific domain opportunities across the globe including the KSA/GCC/MENA Region. It works with some of the largest government and private entities / family groups in the region, thereby allowing it to better identify the specific opportunities that are likely to emerge as long term value enhancers and address the key objectives of this exercise which includes collecting information on:

1. Saudi Arabian market conditions and consumption trends
2. Specific local business customs
3. Demand for Japanese goods/services in major industries and possibilities of advancement
4. Preparation for development and local operation in Saudi Arabia

## Executive Summary

### Economy with Positive Outlook

The world's largest producer and exporter of oil, KSA's economy has been largely dependent on its hydrocarbon sector. Initiation of the 5 year plans in the early 70s has provided the country with a highly developed infrastructure, free public education and health care facilities, and extensive social service programmes. Petroleum is an integral part of its economy, accounting for 80 per cent of budget revenues, 45 per cent of gross domestic product (GDP), and 90 per cent of export earnings. Its economic growth has therefore been affected by oil price fluctuations and the more recent disruptive impact from the commercial extraction of shale gas. Consequently, the KSA is focusing on diversification of its economy to produce and export a wider variety of

Economic condition	Unit	Value	Year
GDP growth rate	%	4.6	2014
Nominal GDP per capita	USD	25,400	2014
Average Consumer Price Inflation	%	2.9	2014
Private consumption expenditure	% of GDP	30	2013
Inward foreign direct investment	USD Million	9,298	2013

Source: IMF, UNCTAD, World Bank

industrial goods and evolve into a regional and global economic powerhouse.

The Government's focus is on making the KSA a self-sufficient economy. Efforts to diversify the economy have led to the creation of jobs in

the various sectors. The Kingdom's service sector contributes 35.5% of its GDP and employs two-thirds of its workers. Civil administration, defence, hospitality and tourism are the key service sectors in KSA.

From a futuristic perspective, the outlook on the KSA economy remains optimistic. Factors contributing to this positive outlook of the KSA economy include:

- ✓ Despite oil price volatility and the exploration of shale gas, KSA's robust accumulated surpluses indicate that the Government spending will remain and continue uninterrupted in the short to medium term.
- ✓ In alignment with global equity markets risk averse position, investments in Saudi shall also be focused on sectors that promote local economy such as retail, food,



Source: Frost & Sullivan Analysis

---

banking, telecom, education, construction etc instead of investing in export driven sectors like petrochemicals.

- ✓ Real estate and construction sectors will witness accentuated growth driving by demographic strengths, Government's focus on infrastructure development and the diversification efforts
- ✓ Continuation of oil production at current levels without any supply control measures. The new King has pledged his support to Saudi's oil production and pricing policies and announced that a reversal is unlikely. The kingdom's accumulated foreign assets and its public debt/GDP ratio at just 3 percent, KSA is expected to survive more protracted period of low oil prices even as the country focuses on upgrading its education, healthcare and physical infrastructure in efforts of long term economic stability.

## Foreign Investment in the KSA - Procedures

The KSA has introduced its new foreign investment regulation act in 2000. The Government of the KSA also established the Saudi Arabian General Investment Authority (SAGIA) in 2000 to attract, encourage, and provide licence for investment in the country to the both local and the foreign participants.

Initially only nationals are privileged to do business in the KSA. With the formation of the SAGIA, foreign investors are getting permission to invest in the country, as well.

The main documents required for foreign investment in the country are:

- A completely filled up licence application form with the applicant's signature. The form should include an authenticated declaration that the applicant has reviewed the Foreign Investment Regulation act 2000 and its Implementing Rules
- An authenticated resolution of the applicant's board of directors to incorporate a limited liability company in the KSA
- A copy of certificate of incorporation and articles of association of the applicant's company
- An authenticated copy of the last two to three years' balance sheet of the applicant
- A copy of passport of the proposed manager of the company with four passport-size photographs of the said person
- Copies of passports of all the people mentioned in the articles of association of the applicant company

Getting an investment licence is the most difficult part for the establishment of a KSA company with foreign shareholders. This is considered to be the first step to formally set up a business in the country. Below are the key steps, which are required to be followed after the licensing procedures are completed to set up a KSA limited liability company with foreign shareholders:

---

After getting the investment licence from the SAGIA, the shareholders should obtain approval of the company's draft articles of association from the Ministry of Commerce and Industry. Post receiving the approval of the draft articles of association from the Ministry of Commerce and Industry, the shareholders or their authorised representatives has to submit articles of association before a notary public. This is to be followed with opening a bank account in any bank in the KSA by the shareholders or their authorised representatives. They have to deposit their company's capital to that bank account. The last and the final step would be to acquire the commercial registration (CR) certificate.

The Company's Law is the primary legislation governing companies in Saudi Arabia. It recognizes eight types of companies, of which the following four are the most popular ones:

**Limited liability Company (LLC):** This form is popular amongst foreign investors as they are simple to establish and the personal liability of the partners is restricted to their individual contribution to the company's share capital.

**Joint Stock Company:** Establishment of joint stock companies requires authorisation from the Ministry of Commerce, which is granted after reviewing the company's feasibility study. The provisions applicable for administration of joint stock companies are usually more detailed than those for LLC. However, the requirements are not so strict and, hence, the costs of administration are relatively lesser than that of LLCs.

**General partnerships:** Association of two or more persons; it is a separate legal entity and can transact in its own name. There are no restrictions on minimal capital requirement under the company's law for partnership. However, there are minimal capital requirements under the foreign investment law. General partnerships are commonly used business models by the KSA nationals.

**Limited partnerships:** Limited partnerships involve two types of partners – general and limited. While general partners are liable to partnership debts to the full extent, limited partners are liable only to the extent of their investment.

## Franchising in the KSA

Franchising market in the KSA is increasing rapidly for the last couple of years. The KSA does not follow any strict guidelines for the franchise business operation. Commercial company law is being used as a baseline for the franchise business model. Currently, the KSA Government has allowed wholesale and retail trade in the country and has also allowed foreign partners to poses 75 per cent ownership in a joint venture partnership model. A foreign franchisor has to ensure that the brand or the concept must belong to the original franchisor and not adopted from any third-country sub franchise.

---

A foreign investor investing in the service sector in the KSA can establish either a branch office or a 100 per cent owned LLC. In the event of a foreign franchisor, they can operate the company-owned outlets or service its franchisees. The SAGIA does not mandate any minimal paid-up capital for services entity, but the companies, typically, have a minimum capital of USD 0.13 Million

## **Services Sectors Outlook**

The service sector plays a very important role in the KSA's economy. It contributes 50.6 per cent to real GDP and employs about three quarters of the workforce.

### **Retail Sector**

#### **Market Overview**

Representing over 40% of GCC's retail revenues, Saudi Arabia is the largest retail market in GCC with estimated sales of USD 98 bn in the year 2011. The retail sector in KSA has witnessed a paradigm transformation from small and unorganized markets to highly organized sector comprising of palatial malls. Modern retail trade currently accounts for 46% of sales and is continuously growing. Factors that provide proof to a highly accentuated growth in the KSA retail sector in the foreseeable future include:

- ✓ An expanding population that is expected to scale to 38 million by 2025 from current 29 million of which the youth (ages 24 and below) represent a staggering 48%
- ✓ Significantly low retail space/capita when compared to other regional markets indicating huge growth potential
- ✓ Consistent retail sales growth of 10% and above in the past 3 years; per capita retail sales has also expanded at 9% consistently for the past 3-4 years.
- ✓ Religious tourist influx of more than 12 million every year necessitating demand for diverse and customized retail offerings
- ✓ Steady growth in online retail that is supported by a consistently increasing internet penetration in the Kingdom.
- ✓ Huge potential in the food retail market - Retail market is primarily segregated into two broad heads food and non-food respectively. Food retail market was valued at USD 51.4 bn in 2013 and is estimated to grow at a CAGR of 8.2% during 2013-2018

#### **Attractiveness for Japanese Companies**

The retail segment in the KSA has witnessed maximum foreign players' entry. Infact in food, apparel and luxury goods retail, it is mostly the foreign players who dominate the market. Even in the fastest growing hypermarket category, there is seen presence of foreign players (through their local partners) amongst the top 5 players. From a business perspective, the increasing consumer disposable income, increasing marginal propensity to consume and favourable demographic make it an optimal destination for investment by foreign players.

---

It is the retail sector that has existing presence of Japanese companies amongst all service sectors. Daiso (100 Yen shop) and Yellow Hat (automotive supply chain) are 2 of Japanese retailers who have set shop in KSA. Besides these, other retailers such as Muji (Mujirushi Ryohin) through its partner MH Alshaya Co and 7 Eleven have started operations in UAE as a first step for their Middle East foray and can look at expanding operations into the KSA given the favourable climate.

Japanese retailers like Muji and Uniqlo who have built unique business models of non brand high quality products are sure to find immense acceptance amongst consumers in KSA who are also very sensitive for high quality competitively priced products. Besides Japanese retailers have an added cost advantage over their Western competition given the lessor logistics and import costs. Also with most of the Japanese retailers intending to enter Dubai, expanding from there to KSA would be easier.

If the Japanese retailers establish their Middle East headquarters in Dubai through a local partner (in which case they get the registration of a local company), then importing from Dubai to any location in KSA is duty free. Retailers can enjoy this added benefit by setting up their major warehouse in Dubai and from there catering to the other GCC markets including KSA.

### **Conclusions Summary**

- Japanese companies wanting to enter the Saudi retail market can target the Saudi retail electronics and appliances market, accessories like shoes, and bags, food retail segment and apparel and luxury goods segment. These are considered the fastest growing and with immense potential for foreign investors.
- Companies can look at entering Jeddah, Riyadh, Eastern Province and Al Khobar which are the four major business regions of the Kingdom.
- The most popular business model to enter into the Saudi retail sector for the foreign companies is franchisee business model. Currently, the government of Saudi Arabia has allowed wholesale and retail trade in the country and also allowed foreign partners to pose 75% ownership in a joint venture partnership model.
- If any foreign company is looking at entering the retail market of Saudi Arabia then it is imperative to obtain a good knowledge about the cultural, political, economic, demographic, fiscal and monetary situation of the Kingdom. Understanding of banking processes is important
- Key success factor for a Japanese retail outlet entering the KSA is the identification of the right local partner. A partner with financial muscle to market and advertise in the

---

right channels and with the awareness of the necessary registration and licensing processes

- Other key success factors include the right positioning (better variety, quality brands at competitive prices), the right locations (either in the already developed cities of Riyadh, Jeddah or the religious pilgrimage cities of Mecca and Medinah or developing regions like the Eastern province), the right retail segments (food, electronic goods, luxury products)

## **Food and Restaurant Service Sector**

### **Market Overview**

Saudi is emerging as a major food servicing market in GCC. In 2012, the industry generated revenues worth USD 7.7 billion and was one of the industries in the region which was performing extremely well during recession period. The market is highly fragmented with over 65,000 outlets. Growths in tourism, increasing annual disposable income and changing demographics have contributed to the growth of foodservice industry in the region.

- During 2013, 51% of the revenue from food service industry was generated from the Stand alone outlets. Quick service restaurants accounted 74% of the standalone outlet sales and 11% sales was generated from full service restaurants.
- Casual dining restaurants sector is also growing alongside QSR and was estimated to generate revenue worth \$7.69 billion in 2014.
- Cafés and specialist coffee shops generated revenues worth \$354.6 million and \$117.3 million respectively during 2011.

### **Growth Trends**

- The fast food market in the KSA is expected to reach USD 4.5bn by 2015, CAGR of 6% during 2013-2015..
- By 2015, it is expected that restaurant chains selling hamburgers and deserts will grow and they shall comprise 20 percent of food service transactions in the Kingdom
- It is estimated that the combined revenue of cafés and specialist coffee shops during 2017 would be \$ 1 billion.

### **Attractiveness for Japanese Companies**

Saudi Arabia (30.62 million- 2014) has the largest population in the entire GCC. This represents 77% of total GCC population and 50% of them are under 25 years old. Increasing population of younger generation coupled with disposable income is fueling the growth of restaurant industry in the Kingdom. Personal disposable income levels will continue to grow in the Kingdom (10% CAGR over

---

2011-2016 according to EIU) with development across all sectors in the back drop of the strong economic growth of Saudi.

Due to lack of entertainment centres in Saudi, fast food centres and restaurants are emerging as the popular destination for people to socialize with friends and family.

Government support schemes to enhance the growing private sector business opportunities with focus on increasing the national and foreign investments as public spending has increased by 15.8% is encouraging international food servicing companies to set up outlets in the region.

Saudi Arabia receives five million pilgrims every year from all over the world during Hajj and Ummrah. Restaurant industry benefits a lot during these seasons.

Japanese food is known for its low calorie and nutritional value. Growing awareness among the public on the significance of consuming low fat food may support the growth of Japanese restaurants in the region. Saudites have always embraced and adopted international culture and cuisines indicating the environment to be favourable for Japanese food chains to enter.

### **Conclusions Summary**

- Most of the International food chains follow the franchise model. Fast food franchises account for more than 60% of the total franchise market in Saudi Arabia. Franchise is the most convenient and hassle free mode of business in terms of food service industry. In this model, raw material supply, logistics and warehousing would be completely managed by the local partner.
- Consumers in Saudi are proactive in understanding the nutritional information and ingredients of the food they buy. Fusion food is a concept which is expected to flourish in KSA due to growing number of expatriates. Most of the restaurants now offer a combination of traditional and modern cuisines to attract people from all regions.
- Restaurant industry depend heavily on price, service, location, food quality, changes in consumer trends, economic conditions, demographics, traffic patterns, and nutritional concerns of foods.
- Potential opportunities exist all across the segments especially in QSR (quick service restaurants) and casual dining segment. It is estimated that the fast food industry revenue of the region will reach USD6.9 billion by 2017.

## **Hair Dressing and Beauty Service Sector**

### **Market Overview**

The KSA beauty and hair dressing industry has witnessed a tremendous growth in recent years. In 2012, the beauty and hair dressing industry in the region had generated revenue of around USD 0.3 billion. The KSA is viewed as a potential beauty business destination by International companies. Unlike the UAE, the salon and spa market here is in a nascent stage. However, the market has expanded drastically in the last few years.



- 
- Around 50 per cent of the salon's revenue comes from hair-colouring, which is considered a quick makeover technique.
  - Recently, men have also started showing interest in specialised beauty and personal care salons.
  - The salon business in the region peaks during festive and marriage seasons and during vacations and the beginning of the academic year. In 2013, profit made by beauty salons across the KSA during Eid was over USD 133.3 million.
  - Treatments that are most sought after are blow dry (hair setting), facials, body hair removal, hair colouring, and body care.
  - The country's affluent women spend USD 4,000 a year on various cosmetics /beauty treatments.
  - Skin care market of the country is expected to touch USD 502.9 million by 2015.
  - The salon business in Saudi Arabia is highly segmented with around 5000 registered and large number of small and unregistered salons.

### **Sector Specific Entry Regulations**

The rules and regulations governing running beauty parlours and clinics vary across various provinces of the KSA. Any new beauty centre or salon needs to pay licence and work permit fees to as many as 14 Government agencies in the KSA. The fees are also quite exorbitant. The licence fee for a simple beauty centre costs as much as USD 80,000.

In order to promote and support skilled Saudi women (Saudisation), the Government is now trying to replace foreign workers with Saudis by restricting the number of foreign beauticians.

### **Attractiveness for Japanese Companies**

Recently, few international beauty salons started operating in the KSA. Even though the awareness is less amongst people about these centres, with an increasing number of educated women in the country, the industry is likely to flourish within a short span.

Japanese beauty treatments are considered safe with limited usage of chemicals. Authentic Japanese beauty treatments use natural ingredients to give a long-lasting effect. The treatment methods are similar to the local beauty treatments, which may encourage customers to experiment it. The Japanese beauty care industry is known for customized treatments. The Japanese age reversal skincare and spa treatments are popular all across the world and the maintenance is remarkably different from other regions. Their skincare regimen uses a variety of natural herbs and very less chemicals. Many of the naturally occurring herbs in Japan are used in salons that help fight off the negative effects caused by weather conditions and pollutants. Saudi women are likely to adopt the Japanese salons as that would give them an opportunity to revive the authentic Arab beauty treatments.

---

However, given the numerous licenses and huge fees involved in obtaining licenses and also that the Government favors locals to own and operate salons and beauty parlours, the challenges for entry for Japanese companies in this sector seem quite high.

### **Conclusions Summary**

- Some of the international salons operate as 100 percent subsidiaries while some as franchisees. Renowned salons like Toni & Guy operate as a 100 percent subsidiary while the lesser known brands like Claude Maxime Mondial follow the franchisee model. The franchisee model is a safe way to get introduced in the KSA salon market as the branding part would be managed by the local investor. Frost & Sullivan believes it is better to collaborate with a known local beauty centre as that will build up the confidence level amongst the locals.
- Dammam would be an ideal location. It is a sophisticated and self-contained city with malls, residential areas, and colleges. Currently, there are not many sophisticated salons in this region.
- Frost & Sullivan believes one of the approaches for Japanese companies to enter the beauty and salon segment in the KSA would be to set up fitness / alternate healing centres (as the primary business) but also offer hair spa and beauty services at these centres instead of trying to set up only beauty centres.

## **Education Service Sector**

### **Market Overview**

The KSA has one of the largest education markets in the world. As of 2013, it had 25 public universities and 30 private universities, with more than 500 colleges and 1.2 million students. The Government of the KSA's spending on education is one of the highest in the world. The Government has disbursed USD 56 billion towards education and training system development in the country. In 2014, the Government has spent more than 20 per cent of the nation's wealth on the region's educational industry. The country, currently, spends around USD 1,922 per capita on education. The country has allocated ~USD 593 million towards women-focused educational institutions during 2013-16, though it is only 10% of the total education expenditure during the same period.

### **Growth Trends**

- Saudi Arabian education market accounts for 75% of gross enrolment across GCC.
- Saudi education market size increased by 75% over 2007-2012 period and was estimated to be USD 50 billion in 2012.
- Total primary and secondary enrolment during 2012 stood was around 6.4 million.

- 
- Public school enrolment is the highest, close to around 90%.
  - Tertiary education sector grew at a CAGR of 12.3 % during the period 2007-2012. Also gross Tertiary enrolment rate increased from 29.7% in 2007 to 50.9% in 2012.
  - By 2018 Saudi education market is expected to expand and touch USD 78 billion.

### **Attractiveness of the Sector to Japanese / Foreign Companies**

The KSA Government has allocated around USD 56 billion in 2014 towards development of education in the country. A five-year plan with a budget of more than USD 21.3 billion has also been approved by the late King Abdullah, in addition to the yearly budget figure. The SAGIA is also planning to invest USD 500 billion by 2020 across various segments including education.

The KSA Government encourages international institutes to open centres in the region as a part of country's initiative to diversify business and empower the citizens with world-class education. As per International Schools Consultancy (ISC), the KSA has around 203 international schools (as of 2015).

Potential opportunity exists across all sectors including the schools' general education, vocational education, training, higher education (HE), and professional training.

In the Japanese high technology education, weightage is given on the final course projects and works. Japanese institutes give more importance to research-based study and Japanese education is not confined within universities and schools. Technological education begins in kindergartens in Japan. Field trips to technological museums and creating interest in children by encouraging free play with building blocks with sensors, etc. are part of the curriculum. The Japanese education system gives equal importance to academics and co-curricular activities. While Japanese educational institutes have these benefits that will see acceptance from the Kingdom, it is important to understand that currently majority of international schools and institutes follow UK or US curriculum as they are more popular due to strong western influence and changing people attitudes. Further Saudi Students prefer international curriculum as it would be easier for them to adapt to the international standards and make it easy for them to pursue higher education abroad.

#### Conclusions Summary

- Saudi government does not provide licenses to international operators to run higher education institutes. They need to partner with a local Saudi education provider and can start operation.
- Most of the international institutes in the region follow the franchisee model as it helps them branding and acquiring licenses without much formalities. Saudi ministry of education recognizes such institutes without many conditions.

- 
- Jeddah or Riyadh would be ideal, as both are metropolitan cities populated with a mix of educated nationals and expatriates.
  - Frost & Sullivan believes that one of the approaches for education institutes to take while entering Japan, is to provide options for exchange programs that permit students to pursue higher education in any of the esteemed universities in Japan.
  - Students would also be interested if short period internships are offered in leading Japanese companies that give them practical exposure.
  - Setting up vocational training centres with a few all women centres will also be good entry strategies for Japanese companies

## **Medical and Social Service Sector**

### **Market Overview**

The KSA is the largest healthcare market in the entire GCC owing to its large population. The healthcare market in the KSA has been growing significantly since 2006 at a CAGR of 14.7 per cent during 2006 to 2011. The Government of the KSA has allocated around USD 28.8 billion in 2014 budget under healthcare and social welfare services, which is a whopping 8 per cent increase over the last year.

- The Kingdom of Saudi Arabia accounts for almost 46 per cent of the total GCC healthcare market. Almost all the healthcare practitioners in the country are internationally recognised and also accustomed with western practices and standards.
- The healthcare market of the KSA is also driven by the various lifestyle diseases including diabetes, cardiovascular ailments, and obesity. Obesity has become the great concern in the country.
- The Government of the KSA has also taken bold steps to promote the healthcare sector in the country by attracting more private investments. The private sector participation in healthcare has been increased from 25.3 per cent in 2006 to 31.1 per cent in 2011.
- During the ninth-plan period, the Government of the KSA has allocated USD 73.04 billion under various healthcare projects including construction of 121 hospitals, 700 primary healthcare centres, and 400 emergency centres.

### **Attractiveness for Foreign/Japanese Players**

The KSA medical services sector is primarily dominated by the Government. However, currently, the Government has realised the importance of the PPP model to reduce the huge healthcare cost burden from the public sector, which is highly subsidised. However, to build a super specialty hospital, requires a huge capital investment as well as a lengthy process of development. Hence, it is recommended that Japanese companies should start its operation

---

in the KSA healthcare sector in the clinic and diagnostic lab business, which is comparatively less time-consuming and requires much lesser capital investment.

### **Conclusions Summary**

- The most popular business model to enter into the Saudi healthcare service sector for the foreign companies are partnership model or to tie up with a local supplier or distributor, since it will help the investor to get an knowledge about the country and its culture.
- Private healthcare service facilities are mainly concentrated in the three regions: Riyadh, Makkah, and the Eastern Province. Any new participant entering this market can look at entering the other regions such as Jeddah, and Western Province.

## **Housing and Construction Services Sector**

### **Market Overview**

A steadily growing population along with the willingness to reduce the housing shortage is primarily driving the housing construction industry in the KSA. The overall construction industry in the KSA witnessed an average CAGR of 10.06 per cent from 2009 to 2013. The industry is likely to reach USD 46 billion by 2020 at a CAGR of around 9 per cent. Despite being the largest market in the GCC and growing at a steady pace, the KSA real estate market is underdeveloped compared to other developed countries. Only 30 per cent of Saudi population have their own house; only Saudi nationals can have freehold ownership by the Saudi laws, while foreigners are allowed to buy only leasehold property.

- Construction industry in Saudi Arabia is expected to reach USD 46bn by 2020, growing at a CAGR of around 9%, from USD 23.3bn in 2012
- Value of building construction project in the Kingdom is worth USD 7,87,101 mn in the year 2014

### **Attractiveness to Foreign/Japanese Players**

The Government is making ambitious investments in the construction sector. According to the 9th development plan, around USD 385 billion is estimated to be invested in the social and economic infrastructure between 2010 and 2014. Ministry of Housing has announced to build 500,000 social housing units by 2020. The project cost is estimated to be around USD 70 billion.

---

A favourable policy environment along with the growing economy is also driving the investment in the social housing programme. The KSA construction industry is likely to reach USD 46 billion by 2020 at a CAGR of around 9 per cent.

Japanese construction companies with their technology know-how and global experience will find the opportunities in the KSA extremely attractive. The KSA Government offers various benefits for investors in the construction sector.

### **Conclusions Summary**

- The general business model to enter into the Saudi construction sector for the foreign companies is Joint venture model.
- The most popular business structure use by the foreign companies to enter into the Saudi Arabian construction business segment is the Limited Liability Companies (LLCs). It is easier to incorporate a company as a LLC company than for example a joint stock company
- In addition to that, minimum capital requirement and lesser corporate governance formalities make this business model most popular among the foreign investors in the construction sector.
- Foreign investors are prohibited to do any kind of construction works in the two sacred cities Makkah and Madinah. Apart from these two cities, new entrants can look at any other location. Jeddah, Riyadh, and Al Khobar are the three major business regions of the KSA where most of the construction activities are concentrated and would be ideal locations for market entry.

## **Information Technology Services Sector**

### **Market Overview**

The IT market in the KSA is considered to be the largest market in the GCC and valued at around USD 3.8 billion in 2011 and likely to touch USD 5.7 billion by 2016, at a CAGR of 8.45 per cent per annum. Comparatively stable economy coupled with the favourable government support and increasing per capita income is driving the IT services market in Saudi Arabia. The Government is on a major computerization drive of all its departments and would be requiring enormous support in IT services in the ensuing years.

### **Attractiveness for Foreign/Japanese Companies**

The ICT market of the KSA is the biggest market in the Middle East both in terms of value and volume of spending. It is estimated that the KSA accounts for almost 70 per cent of the total ICT market of the Middle East. Spending on ICT services was around USD 25 billion in

---

2012 out of which spending on information technology was around 30 per cent of the total volume of expenditure, primarily focused on hardware and IT services.

### **Conclusions Summary**

The most popular business model to enter into the KSA IT services sector for foreign companies is the partnership model. If we analyse the three major foreign IT service companies in the country we see:

- IBM is operating its business in the free trade zone of the country as a Limited Liability Company
- Wipro started its business in the country in partnership with the popular KSA business group Dal Al Riyadh. It opened its first office in Al Khobar as a joint venture company

Jeddah, Riyadh, and Al Khobar are the three main business regions of the country. Hence, it can be suggested that foreign firms should choose any one of the cities (Jeddah, Riyadh, and Al Khobar) to open their first office.

### **Facilities Management Services Sector**

#### **Market Overview**

The facilities management (FM) industry in the GCC is growing at a tremendous pace. KSA accounts for 40 percent combined share in FM services market in the GCC. The KSA's boom in construction and oil and gas wealth are the key factors fuelling the growth of industry in the region. The KSA is considered the most promising FM market in the GCC for the next five years.

- During 2013, the FM industry in Saudi was worth around USD 1.80 billion and as growing at a rate of 19.6%.
- Commercial, Industrial and Government segment together represent 33.9 percent of the total FM services market in KSA during 2013.
- Saudi FM market would witness a CAGR of 25.9% during 2010-2017 and likely to touch USD 4.97 billion by 2017.
- As per industry estimates Saudi facility management industry is expected to generate revenue worth USD 100 billion in the coming 20-25 years.
- The industry would grow at an exponential rate with construction projects worth USD 1 trillion planned or under construction in coming years.

#### **Attractiveness to Foreign/Japanese Players**

---

Saudi Arabia has remained stable even during the economic crisis and has remained an attractive place for investors. The Saudi Industrial Property Authority develops and supervises the industrial land in the Kingdom and promotes the private sector to involve in the development and operation of various properties. They encourage international consultants for master planning, design, operation and maintenance, and facilities management, which would open new avenues for Japanese companies to pursue the FM market in the Kingdom.

In addition to this, the International Facilities Management Association (IFMA) is active in the Middle East which supports the international companies who wish to operate in the region.

Japanese FM companies use high end technology to manage the entire building management. Saudi Arabian companies are gradually immigrating to technology to monitor and process building specific data to effectively manage. So this would offer Japanese companies with an excellent opportunity to explore the market further.

### **Conclusions Summary**

- Well known international service providers have their 100 percent subsidiaries in the region. Smaller players follow the joint venture model. The most favourable model of business in the KSA for an FM company would be to get into a joint venture with an existing local service provider/partner. In this industry, networking is a key factor and most of the marketing happens through this. So the local partner can support the new entrant in channelizing its network.
- Jeddah and Riyadh would be the ideal locations as most of the construction projects are coming up in these regions.
- Threat from existing established competitors who offer bundled services to customers would be the major threat a new entrant would face, followed by lack of skilled labour.

### **General Observations and Conclusions across all Sectors**

**Country Level Relations:** It is observed that countries that have country level cooperation and smooth relations are able to create conducive environment for their businesses to enter and operate in KSA. In that sense, Japan already has good relations with the Kingdom and it would help to renew these relations with the new King to ensure continued enhanced business relations.

**Conformance to Religious Sentiments:** The Kingdom places paramount emphasis to religious practices and conformance to Islamic law even in business practices. As the services segments directly serve consumers, it is important for the service providers to be



---

aware of these religious practices and preferences. Japanese companies looking to enter the Food, beauty service sectors in particular are advised to be cognizant of local practices and traditions.

**Ranking of Service Sectors:** Of the sectors studied as part of this research, Frost & Sullivan believes that the below is the order of high potential service sectors for Japanese companies to consider entering:

1. Retail
2. Food & Restaurant
3. Education
4. Construction
5. Facilities Management
6. Healthcare
7. Beauty and Hair Dressing
8. IT Services

The above order is based on the following factors

- ✓ Opportunity size and potential
- ✓ Ease of market entry for foreign players
- ✓ Strengths for Japanese companies and sectors where they can be easily leveraged
- ✓ Sectors with established success stories of foreign players

**The KSA as Regional Hub:** When compared to UAE, the costs of business operations in the KSA are relatively economical and the KSA has no duty trade relations with the entire GCC. Japanese companies can thus look at leveraging these benefits by establishing their ME headquarters in the KSA and servicing the GCC or even extended MENA region from there.

**Awareness Creation of Japanese Services:** Consumer survey results highlight a very low level of awareness of Japanese in service industries. For Japanese companies to be successful in consumer related service sectors of retail, food, beauty care, and education, it is imperative to create awareness on Japanese brands, their value propositions, the benefits they can offer etc,. Conducting road shows and engaging in active social media promotion are great avenues to popularize Japanese brands. This awareness creation drive shall enable easier market entry and acceptance of Japanese brands when they enter. Participation of Japanese players in consumer trade events in the ME will also help in spreading the awareness.

**Promotion activities:** For the business centric service sectors of healthcare, facilities management, construction and IT, it is essential that Japanese companies participate in important trade shows for these sectors in the GCC. Setting up a Japanese pavilion in any of

---

the premier events for these sectors in the GCC will help promotion and acceptance of Japanese companies in the KSA. Some of the prominent events worth participating include:

1. GITEX, Dubai
2. GISEC, Dubai
3. Saudi Health, Riyadh
4. Arab Health, Dubai
5. Buildex, Dammam
6. Saudi Building & Interiors, Jeddah
7. The Big5 Saudi, Jeddah

**Need for Detailed Pre-Feasibility Studies:** While this research has done a surface level analysis of the opportunities, market entry policies, ease of doing business analysis and competitive analysis, at the next level, for shortlisted sectors, it is imperative to do a more deep dive assessment or pre-feasibility study. The pre-feasibility study needs to cover the following in detail:

- specific sector's market dynamics
- mega trends impacting the sector's growth and micro analysis of their impact
- market size estimates and model based forecasts till 2020 or 2025
- sub segment market analysis
- regional analysis of market opportunities within the KSA
- attractiveness index of the different provinces in the KSA – mapping of macroeconomic, demographic, fiscal, monetary, industrial and trade parameters
- competitive analysis at segment and sub segment level
- ROI evaluation at sub segment level
- identification of critical key success factors (KSF) and their weightages
- mapping of policy and regulatory environment at segment level

The pre-feasibility study also needs to conduct a detailed consumer survey to understand their preferences, perceptions, unmet requirements and demands.

# Chapter 1: The Kingdom of Saudi Arabia

## General Overview

Exhibit 1: The Kingdom of Saudi Arabia (KSA)



Source: The Washington Institute

With a total area of 2,149,690 sq. km accounting for 80 per cent of the Arabian Peninsula, the Kingdom of Saudi Arabia (KSA) is the largest Arab state in Western Asia, with a population of 30.6 million in 2014. The country has a very youthful demographic profile with a median age of 26.4 years.

One of the largest producers of oil, the KSA has its geographical advantages. Its extensive coastlines on the Persian Gulf and the Red Sea are suitable for shipping activities, which are routed through the Persian Gulf and the Suez Canal. Jordan and Iraq border it in the north and northeast, Yemen in the south, Oman in the south and southeast, and the United Arab Emirates (UAE), Kuwait, Qatar, and Bahrain in the east. Located at the crossroads of Europe, Asia, and Africa, its strategic location not only helped the discovery of oil, but also spurred the Kingdom's trade with the rest of the world. Consequently, the KSA has emerged as one of the wealthiest nations in the Middle East (ME).

### Political Snapshot

Founded by Abd-al-Aziz Bin-Abd-al-Rahman Bin-Faysal Bin-Turki Bin-Abdallah Bin-Muhammad Al Saud, in 1932, the KSA has an absolute Islamic monarchy with all legislative and judicial institutions falling under the King's authority. King Salman is the current ruler of Saudi Arabia after his elder half-brother, King Abdullah, died in January of 2015. Islam is the religion of the KSA and the Islamic law, the Shariah, is the primary source of legislation; Arabic is the main

language spoken in the country. However, the actual promulgation of legislation and implementation of policy is often mitigated by more mundane factors, such as political expediency, the inner politics of the ruling family, and the influence of intertribal politics, which remain strong in the modern kingdom.

Its constitution is Almighty God’s Book, The Holy Qur’an, and the Sunna (Traditions) of the Prophet (PBUH)<sup>1</sup>. Since the nation-state was created in 1932, religion and politics have been inseparable. Religious views dictate policy decisions within the country and the king combines legislative, executive, and judicial functions. As the Prime Minister, he presides over the Council of Ministers (Majlis al-Wuzara). The council is responsible for executive and administrative matters such as foreign and domestic policy, defence, finance, health, and education, which it administers through numerous separate agencies. The Consultative Council —Majlis al-Shura includes many technical experts appointed by the king. It has the power to draft legislation and, along with the Council of Ministers, promote it for the king’s approval. The country is divided into the 13 provinces: Makkah, Madinah, Qasim, Eastern Province, Asir, Tabuk, Hail, Northern Border Province, Jizan, Najran, Baha, Jouf, and Riyadh (the capital). The provinces are further divided into 118 governorates.

**Exhibit 2: Major Cities**

Major cities	Population
Riyadh	4,205,961
Jeddah	2,867,446
Mecca	1,323,624
Medina	1,300,000
Sultanah	946,697
Dammam	768,602
Ta’if	530,848
Tabuk	455,450
Buraidah	391,336
Khamis Mushait	387,553

Source: Geonames.org

The ruling of Al Saud family has remained unaffected by the Arab Spring and its fallout. Political parties are banned within the country and all opposition activities are organised from overseas. The Government has prioritised raising the standard of living and providing employment for the KSA’s young population, including women, by implementing some policies and restricting hiring of foreign employees.

<sup>1</sup>Saudi Embassy

## Economic Overview

The growth story of the KSA economy began in the early 1970s with the initiation of its five-year plans that, over the years, have provided the country with a highly developed infrastructure, free public education and health care facilities, and extensive social service programmes. For most of the last five decades, the KSA economy has been heavily dependent on oil prices. The world's largest producer and exporter of oil, petroleum is an integral part of its economy, accounting for 80 per cent of budget revenues, 45 per cent of gross domestic product (GDP), and 90 per cent of export earnings. Its economic growth has therefore been affected by oil price fluctuations like the one witnessed during the 1980-1990 slowdown and the more recent disruptive impact from the commercial extraction of shale gas. Consequently, the KSA is focusing on diversification of its economy to produce and export a wider variety of industrial goods and evolve into a regional and global economic powerhouse.

**Exhibit 3**

Constituents of the KSA Economy			
Economy	Agriculture	Industry	Services
<ul style="list-style-type: none"> <li>The KSA economy is driven by enormous revenues from its oil exports</li> <li>Private consumption expenditure accounted for 27.2 per cent of GDP in 2012</li> <li>The KSA's five year plans are focused on economic diversification by increasing the share of private participants in order to reduce dependence on hydrocarbon revenues</li> </ul>	<ul style="list-style-type: none"> <li>Agriculture contributes a negligible portion to the KSA GDP</li> <li>It employs 6.7 per cent of labour force</li> <li>Wheat, barley, tomatoes, melons, dates, citrus are some of the major agricultural products</li> </ul>	<ul style="list-style-type: none"> <li>The establishment of SABIC has aided the rapid expansion of manufacturing</li> <li>There has been a focus on non-oil industries to enable economic diversification</li> <li>The industrial sector employs about 21.4 per cent of labor force</li> </ul>	<ul style="list-style-type: none"> <li>The service sector in the KSA engages almost two-thirds of the workers</li> <li>It accounts for 35.5 per cent of the GDP</li> <li>Civil administration, defence, and hospitality and tourism are some of the key sectors in services</li> </ul>
	2 per cent	62.5 per cent	35.5 per cent

*Source: CIA, Britannica*

The Government's focus is on making the KSA a self-sufficient economy. Efforts to diversify the economy have led to the creation of jobs in the financial services sector. This is changing the employment scenario in the country with people moving

**Exhibit 4**

Economic condition	Unit	Value	Year
GDP growth rate	%	4.6	2014
Nominal GDP per capita	USD	25,400	2014
Average Consumer Price Inflation	%	2.9	2014
Private consumption expenditure	% of GDP	30	2013
Inward foreign direct investment	USD Million	9,298	2013

*Source: IMF, UNCTAD, World Bank*

from labour to white collar jobs. Simultaneously, the Government has been protecting its own citizens by putting restrictions on the hiring of foreign employees in organisations and reserving quotas for the local people. Meanwhile, the private sector is increasingly playing a larger role in the country's economy; it now accounts for 48 per cent of its GDP and is likely to continue growing as the KSA opens its doors to further foreign investment.

### GDP growth rate

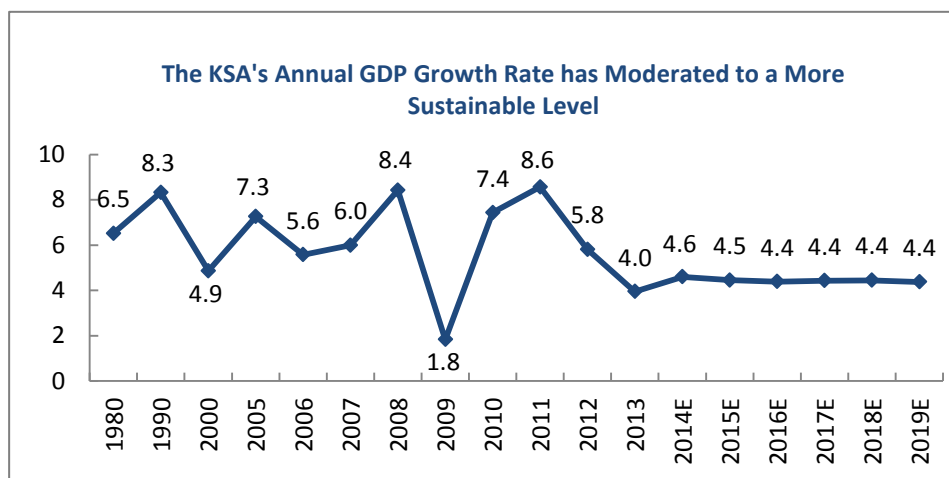
Despite efforts to diversify into power generation, telecommunications, and natural gas exploration, the KSA economy is largely dependent on the hydrocarbon sector and its growth is affected by oil prices. Like the rest of the world, the KSA was affected by the global financial slowdown in 2009. It saw a couple of years of strong recovery, driven by consistent oil from non-Organisation

for Economic Co-operation and Development

(OECD) countries, before being affected by the Euro crisis<sup>2</sup>. In 2014, its gross domestic product (GDP) is expected to have grown at 4.6 per cent driven by a robust performance

of the private sector. Private and foreign investment are driven by on-going or planned projects including three refineries, three new gas fields, the enormous Sadara petrochemical complex at Jubail, an aluminium factory at Ras al-Khair, the extension of the rail network, and the Riyadh metro<sup>3</sup>. Additionally, large-scale infrastructure projects and spending on housing will aid the growth of non-oil sectors. Going forward, public investments will drive growth. The package of measures costing USD 130 billion (around 20 per cent of the GDP) launched in 2011 to alleviate social tensions by boosting household consumption is one such programme. Lastly, the swift fall in the prices of crude oil will curb the upside potential of the KSA economy and may even negatively affect economic growth in 2015 and beyond.

Exhibit 5



Source: IMF

<sup>2</sup>The European debt crisis is an ongoing multi-year long debt crisis taking place in a handful of Eurozone member states since the end of 2009.

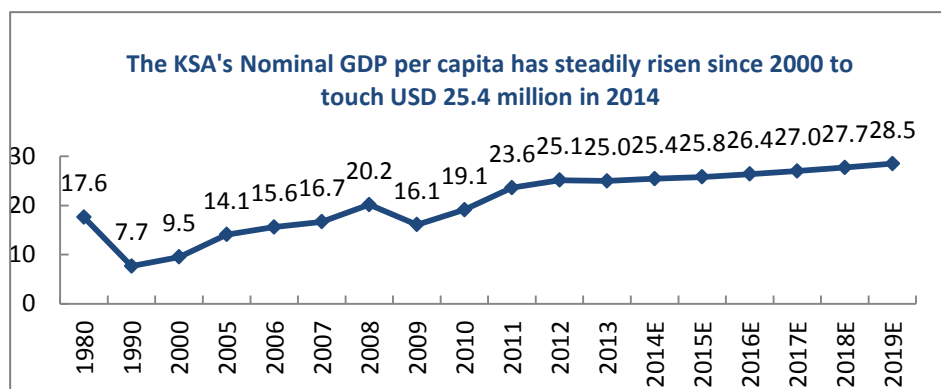
<sup>3</sup>Coface

## Nominal GDP per capita

The revenues from petroleum exports have resulted in growing economic prosperity with the KSA's citizens enjoying a high level of GDP per capita income. The KSA's nominal GDP per capita grew at a **Exhibit 6** CAGR (compound

annual growth rate) of 9.6 per cent during 2009-14. At USD 25,400 in 2014, it is amongst the top 35 countries of the world in terms of GDP per capita. During 2004-19,

the KSA's per capita income is likely to grow, albeit at a much slower pace, at a CAGR of 2.3 per cent.

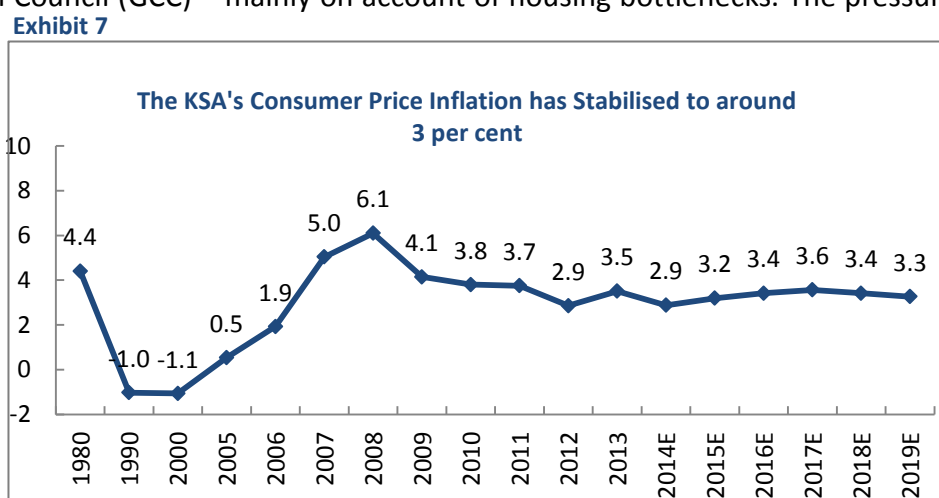


Source: IMF

## Consumer Prices

The average consumer price inflation has moderated from a high of 6.1 per cent in 2008 to around 3 per cent in 2014. In 2013, it was 3.5 per cent – the highest amongst the nations in the Gulf Cooperation Council (GCC) – mainly on account of housing bottlenecks. The pressure

from elevated house prices has eased with the construction of new social housing. Furthermore, the maintenance of subsidies on the price of basic commodities and moderation of the sharp increase in



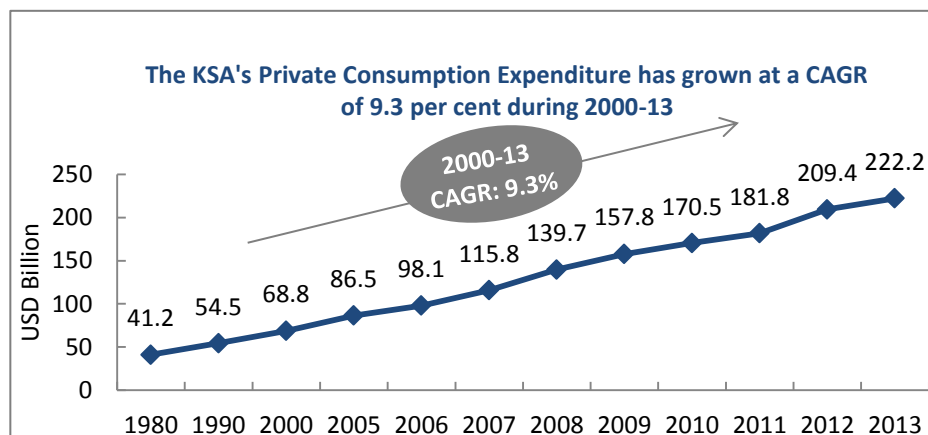
Source: IMF

commodity prices by the second half of 2014 resulted in lower imported inflation. Subdued global demand will see commodity prices remaining low in the near future. Lastly, there will be a positive effect from the dollar as the US Federal Reserve continues to tighten its monetary policy. An appreciation of the dollar will see a similar uptrend in the value of the Saudi Riyal and reduce the cost of imports. Overall, inflation is likely to remain range-bound at around 3 to 4 per cent.

## Private Consumption Expenditure

A feature that has attributed to the strong recovery of the KSA economy, after the 2008 crisis, is its consistent and robust household consumption expenditure, which stood at USD 222.2 billion in 2013. **Exhibit 8**

Household consumption expenditure has remained at around 30 per cent of GDP during 2009-2012.<sup>4</sup> Higher liquidity conditions arising from oil revenues ensured that consumer



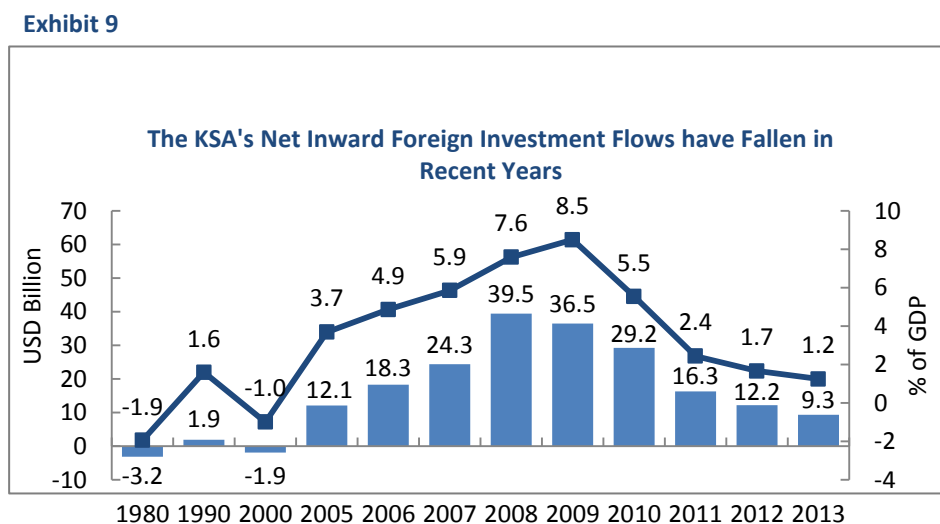
Source: World Bank Development Indicators

expenditure remained strong driving up prices of local food items. Furthermore, with unemployment falling from the high levels of 2009 – it was around 11.5 per cent in 2013 – an increase in disposable income will buoy private consumption expenditure in the coming years.

## Inward Foreign Direct Investment

While inward foreign investment flows had been volatile before 2000, they grew steadily to peak at USD39.5 billion in 2008. The global meltdown of 2009 resulted in a flight of capital resulting in lower

inflows since. The policy announcements of the US Federal Reserve and a gradual recovery of the US economy have also made the KSA market less attractive for foreign investments.



Source: World Bank Development Indicators

In terms of GDP, the largest share was achieved in 2008, at 8.5 per cent. By 2013, it had fallen to a mere 1.2 per cent of the GDP. Amongst other measures to promote foreign investment, the Government has begun establishing six 'economic cities' in different regions of the country.

<sup>4</sup>Country Report Saudi Arabia, Rabo Bank, 2011



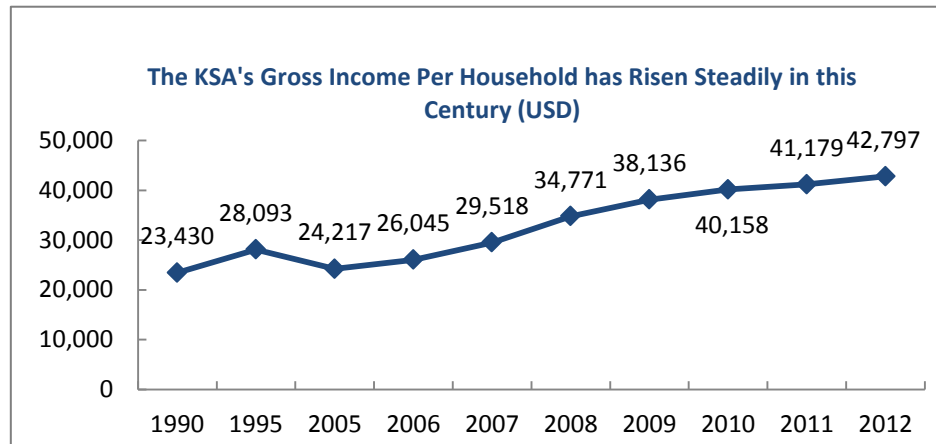
## Household Expenditure and Income

The KSA has seen a steady rise in average gross income of a household, growing at a CAGR of 8.5 per cent during 2005-12 to touch USD 43,000 by the end of the period. On average, out of the total income, benefits account for 10.5 per cent share while employment accounts for the largest share at 59.2 per cent<sup>5</sup>. Other sources of income include investments – accounting for about 17.1 per cent share – with the rest at 13.3 per cent in 2012.

On a cumulative basis, annual gross income is likely to grow at a CAGR of 11.2 per cent from USD 230.3 billion in 2011 to USD 352.4 billion in 2015. During the same period, the annual

disposable income is likely to grow at a CAGR of 11 per cent to USD 281.9 billion. Meanwhile, consumer expenditure is expected to grow at a CAGR of 10.4 per cent to reach USD 249.8 billion in 2015. Key expenditure heads in 2012 were furniture and furnishings, driven by the strong demand for housing, household, and domestic services and appliances.

Exhibit 9



Source: Euromonitor International Ltd

Exhibit 10

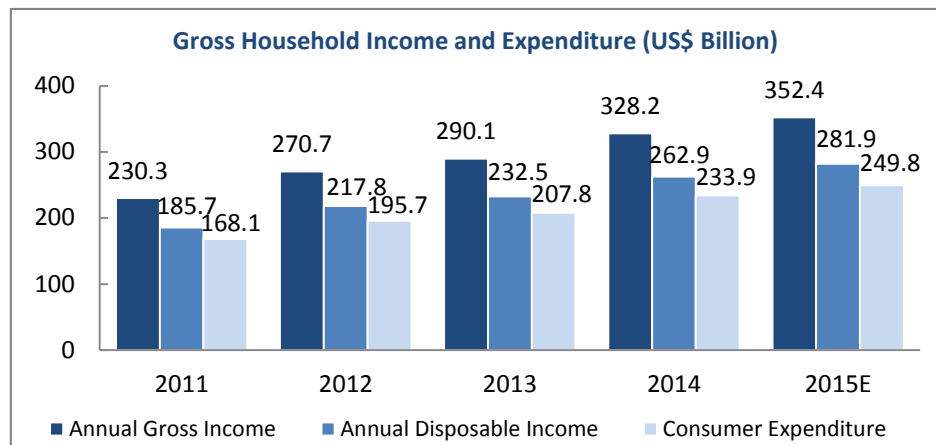
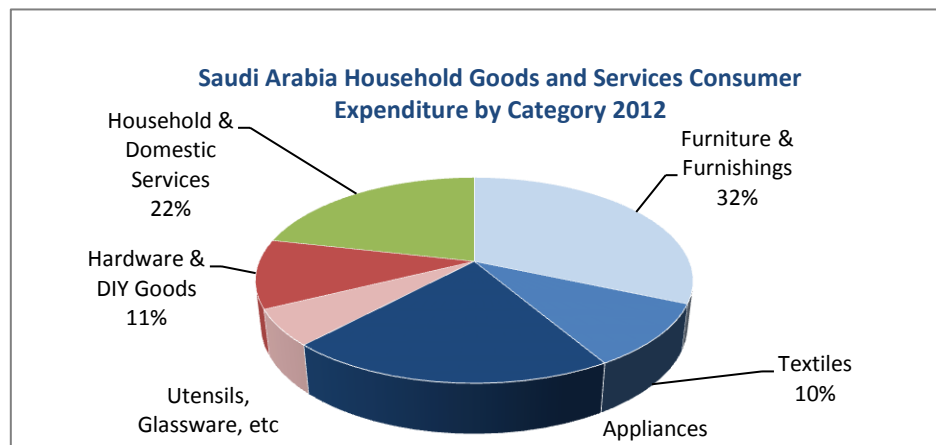


Exhibit 11



<sup>5</sup>Euromonitor International Ltd.

## Penetration rates of consumer durables and services

The KSA consumers were relatively unaffected by the global economic slowdown as compared to other countries. As a consequence, their spending attitudes and shopping habits have not changed much in recent years. However, the advent of modern retail in the KSA has resulted in the evolution of some shopping habits – especially, on food items – to those prevalent in the West. Thus, younger consumers show a marked preference for goods and services that cater to their global tastes and fast-paced lifestyle.

In terms of various products, 2013 saw the strongest retail volume performance for overall consumer appliances with consumers increasingly willing to spend on high-priced items such as refrigeration appliances and large cooking appliances. Impulse purchases of lower-priced items such as kettles or blenders also drove sales. Rising disposable income levels saw many consumers trading up to the leading brands in 2013.

## Population Structure

### Total Population

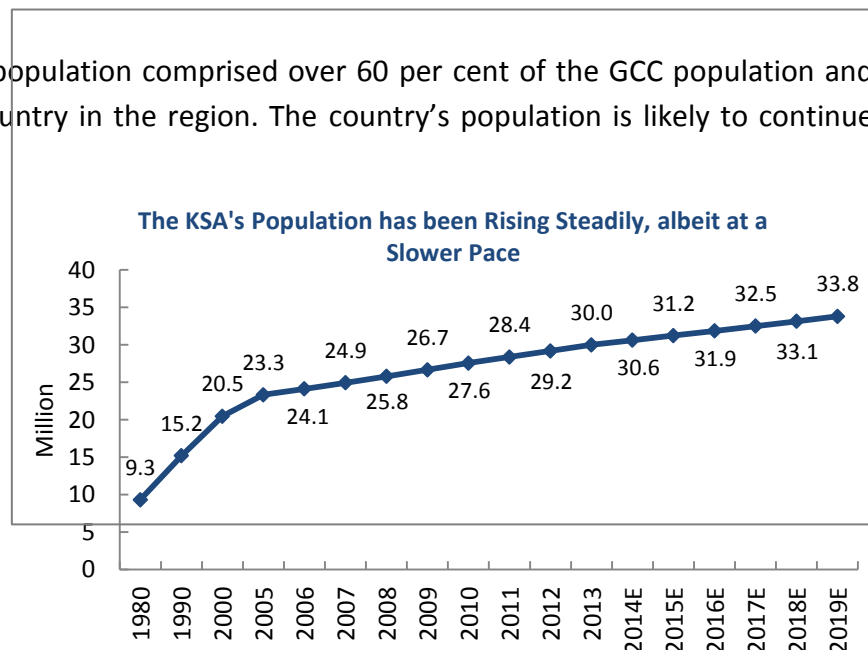
At 30.6 million, the KSA's population comprised over 60 per cent of the GCC population and was the most populous country in the region. The country's population is likely to continue grow to reach 33.8 million by 2019.

### Types of Residence

The KSA has a wide variety of residence ranging from the conventional black tents of the Bedouin and mud-brick dwellings of agrarian villages to the

lofty, ornate townhouses found in urban centres along the coast. A severe housing shortage – estimated at around two millions houses in 2013 – resulted in many households being overcrowded and added to public discontent. In response, the Government has been heavily investing oil wealth in the development of housing facilities.<sup>6</sup> The introduction of the country's first mortgage legislation in 2012 is likely to drive up residential construction and result in higher levels of home ownership<sup>7</sup>. In particular, Riyadh is an important driver of

Exhibit 12



Source: World Bank Development Indicators

<sup>6</sup>Britannica

<sup>7</sup>Euromonitor

construction activity in the KSA with the capital city accounting for an average of 27 per cent of all residential and commercial permits issued across the country between 2003 and 2013<sup>8</sup>.

### Population Distribution and Growth Rate

The KSA's population is estimated to have grown at a rate of 2.1 per cent in 2014. While this rate is high compared to the world average of around 1.1 per cent, the country's growth rate has steadily fallen from a higher 3.4 per cent in the 2000s and is likely to fall to 2 per cent in 2015. Urban population constituted 83 per cent of the total population in 2013 and it is likely to grow at a rate of 2.4 per cent, annually. Meanwhile, females comprised 42.5 per cent of the total population.

In terms of age distribution, the 0-14 age group

comprises 27.6 per cent of the total. At 67.9 per cent, the middle age group — those belonging to 15-64 years — has the largest share of the total population, while the remaining 3.1 per cent are over the age of 65 years, resulting in an elderly dependency ratio of 4.2 per cent.

### Major Racial Makeup

As of 2013, immigrants comprised 30 per cent of the country's population. Non-nationals live in the country legally for work or other purposes and are not granted residency by the KSA. Of the country's native population, 90 per cent are Muslims, mainly Sunni Muslims. The remaining residents of the country are of Afro-Asian origin.

Exhibit 13

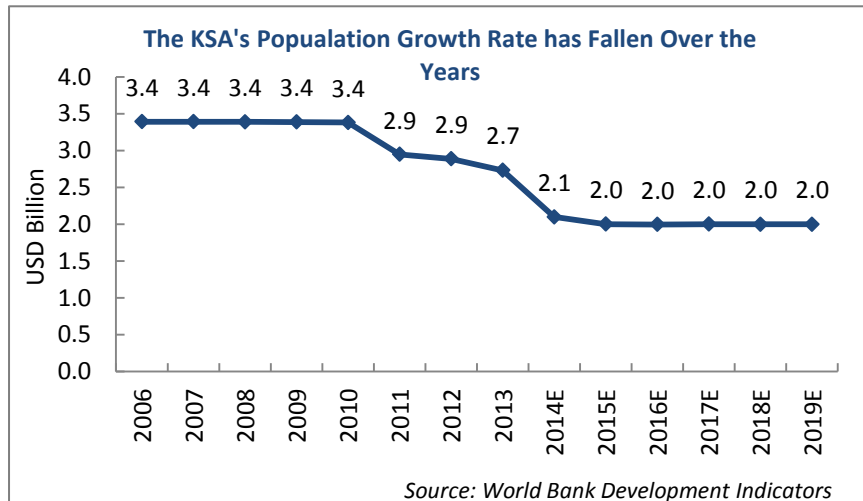
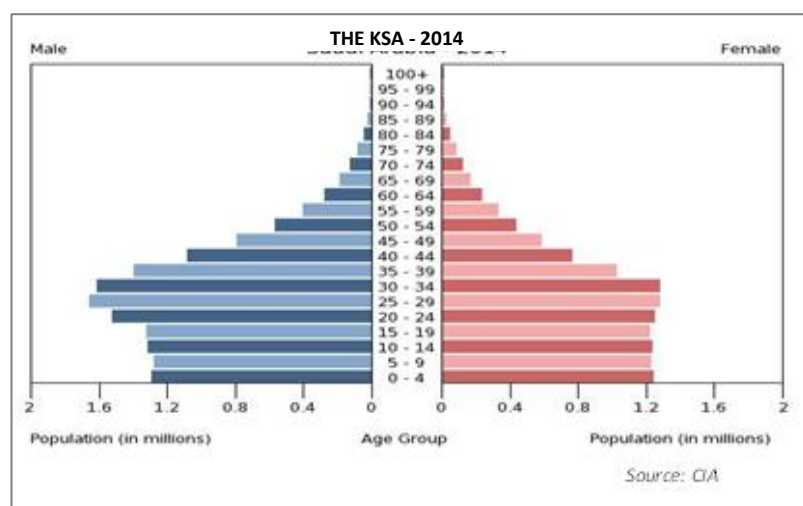


Exhibit 14



<sup>8</sup>Propertywire

---

## Chapter 2: Company Registration Policies and Procedures

### Foreign Investment Regulation

The KSA has introduced its new foreign investment regulation act in 2000. The Government of the KSA also established the Saudi Arabian General Investment Authority (SAGIA) in 2000 to attract, encourage, and provide licence for investment in the country to the both local and the foreign participants.

Initially only nationals are privileged to do business in the KSA. With the formation of the SAGIA, foreign investors are getting permission to invest in the country, as well.

Below mentioned activities are prohibited for the foreign investors in the country (for service sectors):

- Any kind of services to the military sectors
- Investigations and security
- One cannot do any kind of construction work in the holy cities of Makkah and Madinah
- Any kind of guidance services related to tourists of Hajj and Umrah
- Private foreign recruitment and private local employment
- Brokerage services related to real estate
- Any kind of audio-visual services
- Services related to land transportation except transportation of passengers by train within city
- Fishing
- One cannot build any blood banks or poison centres in the country

The main documents required for foreign investment in the country are:

- A completely filled up licence application form with the applicant's signature. The form should include an authenticated declaration that the applicant has reviewed the Foreign Investment Regulation act 2000 and its Implementing Rules
- An authenticated resolution of the applicant's board of directors to incorporate a limited liability company in the KSA
- A copy of certificate of incorporation and articles of association of the applicant's company
- An authenticated copy of the last two to three years' balance sheet of the applicant
- A copy of passport of the proposed manager of the company with four passport-size photographs of the said person

- 
- Copies of passports of all the people mentioned in the articles of association of the applicant company

Getting an investment licence is the most difficult part for the establishment of a KSA company with foreign shareholders. This is considered to be the first step to formally set up a business in the country. Below are the key steps, which are required to be followed after the licensing procedures are completed to set up a KSA limited liability company with foreign shareholders:

After getting the investment licence from the SAGIA, the shareholders should obtain approval of the company's draft articles of association from the Ministry of Commerce and Industry for which they have to submit the following documents:

1. Investment licence of the SAGIA
2. Several copies of the draft articles of association of the company
3. Each shareholder has to submit a copy of the certificate of incorporation and articles of association
4. Approval certificate from the Ministry of Commerce and Industry of choice of name of the company

After getting approval of the draft articles of association from the Ministry of Commerce and Industry, the shareholders or their authorised representatives have to submit articles of association before a notary public, for which they would require the following documents:

- A letter from the Ministry of Commerce and Industry Directorate of Companies, which should be addressed to the notary public, authorising the notarisation of the articles of association
- Original articles of association, which should be approved by the Ministry of Commerce and Industry Directorate of Companies. The approved articles of association should be signed by the shareholders or their representatives
- A copy of the certificate of incorporation and articles of association of each shareholder
- A copy of investment licence of the SAGIA
- Identification cards of the at least two witnesses

Thereafter, the summary of the articles of association is required to be published in the Official Gazette.

After going through the above-mentioned procedures, a bank account in any bank in the KSA should be opened by the shareholders or their authorised representatives. They have to deposit their company's capital to that bank account.

---

The last and the final step would be to acquire the commercial registration (CR) certificate. To obtain a CR certificate, the shareholders have to submit the following documents to the Ministry of Commerce and Industry:

1. An authenticated board resolution mentioning the name of the board members
2. Two copies of the articles of association approved from the notary public
3. Confirmation certificate for payment of the capital from the bank
4. A copy of investment licence issued by the SAGIA
5. A copy of document of office lease

### **Procedures involved in obtaining company licenses**

In recent years, the KSA has been actively focused on attracting investment, both local and foreign, to enable sustained economic development of the nation. The primary objectives of attracting investment include:

- Diversification of sources of income within the KSA
- Export promotion
- Increased indigenisation
- Development of human resources
- Increasing competitiveness of the KSA's products and services locally and globally
- Promotion of environment-friendly economic development
- Encouragement of uniform development of all the regions within the KSA

The Company's Law is the primary legislation governing companies in Saudi Arabia. It recognizes eight types of companies, of which the following four are the most popular ones:

**Limited liability Company (LLC):** This form is popular amongst foreign investors as they are simple to establish and the personal liability of the partners is restricted to their individual contribution to the company's share capital.

**Joint Stock Company:** Establishment of joint stock companies requires authorisation from the Ministry of Commerce, which is granted after reviewing the company's feasibility study. The provisions applicable for administration of joint stock companies are usually more detailed than those for LLC. However, the requirements are not so strict and, hence, the costs of administration are relatively lesser than that of LLCs.

---

**General partnerships:** Association of two or more persons; it is a separate legal entity and can transact in its own name. There are no restrictions on minimal capital requirement under the company's law for partnership. However, there are minimal capital requirements under the foreign investment law. General partnerships are commonly used business models by the KSA nationals.

**Limited partnerships:** Limited partnerships involve two types of partners – general and limited. While general partners are liable to partnership debts to the full extent, limited partners are liable only to the extent of their investment.

The SAGIA is an institution, which takes care of the investment of the KSA including foreign investment. As per the company's law norms, the documents required for granting of licence to operate in the KSA include the following:

1. Submission of electronic investment licence application
2. Copies of commercial registration and the enterprise's Memorandum of Association in its country, duly attested by the competent authorities and the Consulate of the KSA
3. Copy of trade name reservation issued by the Ministry of Commerce and Industry
4. Draft Memorandum of Association of a limited liability company
5. Draft Memorandum of Association and Articles of Association of the joint-stock company
6. Shareholders' decision to invest in the KSA, indicating their names, share capital, equity of each shareholder, address of head office, type of activity, appointment of the General Manager, and his powers, duly attested by the competent authorities and consulate
7. Copy of General Manger's passport
8. Copy of the national ID and Family Register, if one of the partners is a Saudi citizen, and copy of CR certificate to show the profession or a relevant offprint from the Civil Status Department
9. A detailed action plan accurately identifying the project's capability to achieve investment objectives including :
  - a. contribution to increasing the Kingdom's income
  - b. jobs to be provided to citizens
  - c. how the project is going to contribute to fostering competition
  - d. enhancing services
  - e. diversifying options for consumers
  - f. the strategic impact of the project on investment in the Kingdom
  - g. benefits to the city and the surrounding areas where the project will be stationed

- 
- h. an employment and training plan including an estimation of the number of employees and percentage of Saudis in each department and administrative level
  - i. personnel training and qualifying programs
  - j. Number of branches to be opened
  - k. An estimation of start-up cost and required financing
10. A balance sheet for enterprises applying for licence from outside the KSA, covering a period of three years at least and reflecting the solid financial position of the enterprise, duly certified by a recognised public accountant and authenticated by the body concerned with the trade and tax activity in the applicant's country, and legalised by the Saudi Consulate.
  11. A proof of the financial capability to invest commensurately with the project's share capital and equity of each shareholder, in line with the action plan submitted for the project.
  12. Any other documents, data or information that may be required by the SAGIA.
  13. Approval by the relevant government agency of the specialised activities, for which licences can be issued but exercising the business will not be allowed until such approval is obtained. This restriction to the licence should indicate the name of the governmental body whose approval is required.

## **Rules governing Licences for Individuals and their Investor Visas**

Investment licence is granted by the SAGIA in cases of sophisticated technologies, expertise, patents, scientific content, and IPRs (intellectual property rights), which are documented and authenticated by recognised organisations, and licences are granted to applicants who are residing in the KSA. Possession of investment licence does not guarantee investor visa as licence possession has no bearing on residence possession. The Governor's written approval is essential for granting an investor visa. This approval is forwarded to the SAGIA for final endorsement by their board of directors. Investor visas are offered to individuals only in the case of registered patents.

## **Investment Licence Cancellation Procedures**

In case of voluntary cancellation, the owner or his authorised signatory has to submit an application to the one stop shop at SAGIA submitting various documents including:

- Announcement in a widest circulated newspaper at its headquarter location and calling for debtors to approach within a specified period of time
- Certificate of cancellation of municipality licence
- Certificate from GOSI on closing of the company



- 
- Certificate of closure from Department of Zakat and Income tax
  - Certificate of closure from the labour office and domestic recruitment office
  - Cancellation of chamber of commerce membership
  - Deregistration certificate and letter from Ministry of Commerce
  - Original Investment license

Upon submission of the above, the cancellation application shall be referred to the licence department. The cancellation will be provided by the One-Stop-Shop (this is operated by SAGIA to provide all the required licences and approval one need to have to make a foreign investment in KSA) to the after ensuring that no foreign person of the licence owner(s) or its employees is still listed in the enterprise's file with the Passports Department.

### **Activities excluded from Foreign Investment under the Services Sector**

1. Catering to Military Sectors
2. Security and Detective Services
3. Real Estate Investment in Makkah and Madina
4. Tourist Orientation and Guidance Services related to Hajj and Umrah
5. Recruitment and Employment Services including local recruitment offices
6. Real estate brokerage
7. Printing and Publishing Services, except the following activities:
  - a. Pre-printing services internationally classified under the code 88442.
  - b. Printing Presses internationally classified under the code 88442.
  - c. Drawing and Calligraphy internationally classified under the code 87501.
  - d. Photography internationally classified under the code 875.
  - e. Radio and Television Broadcasting Studios internationally classified under the code 96114.
  - f. Foreign Media Offices and Correspondents internationally classified under the code 962.
  - g. Promotion and Advertising internationally classified under the code 871.
  - h. Public Relations internationally classified under the code 86506.

- 
- i. Publication internationally classified under the code 88442.
  - j. Press Services internationally classified under the code 88442.
  - k. Production, Selling and Renting of Computer Software internationally classified under the code 88.
  - l. Media Consultancies and Studies internationally classified under the code 853.
  - m. Distribution of Movie and Video Tapes internationally classified under the code 96113.
  - n. Typing and Xeroxing internationally classified under the code (87505 + 87904).
8. Commission Commercial Agents internationally classified under the code 621.
  9. Audio-visual services.
  10. Land Transport Services, except inter-city train transportation.
  11. Services Rendered by Midwives, Nurses, Physiotherapists and Paramedics internationally classified under the code 93191.
  12. Fisheries
  13. Blood Banks, Poison Centres, and Quarantines.

## Franchising Market in the KSA

The KSA is considered to be the largest economy in the Middle East due to its huge oil reserve. Foreign investors always prefer the KSA as an investment destination owing to various factors including:

- Comparatively low inflation rate than other countries in the GCC
- Low tax rate and sufficient amount of capital availability

Franchising market in the KSA is increasing rapidly for the last couple of years. Many foreign companies including American and European are establishing their footprints in the country. As per the report, franchising business model accounts for 50 per cent of the market share of the total retail market across the world and, out of this, 50 per cent market share Middle East accounts for 5 per cent market share. The estimated market size of the KSA franchise market is around USD 1.5 billion in terms of annual fees and royalties and the market is estimated to grow at an average growth rate of 12-15 per cent per annum. The franchising market is primarily concentrating on restaurant, food and beverages, and the retail sector. Currently, the business model has gained immense popularity amongst small and medium enterprises (SME) in the KSA.

---

## Market overview

Franchising business model has emerged as one of the fastest growing categories in the KSA's several business sectors. The growing economy along with the increasing number of young population is driving the market for franchising in the KSA. There, youths usually manage the business operation, which has opened the doors for the franchise business model in the country. There is an estimated number of around 500 international franchise concepts prevalent in the various KSA sectors including food and beverages, retail, automotive services, healthcare, education, furniture, hotels, cosmetics, laundry services, apparel, patisseries, juice centres, and corn shops amongst all. According to the various industry sources, the market share of the fast food sector is 60 per cent of the total franchise market in the KSA, out of which the US fast food chains account for a 70 per cent market share. A few mentionable names in the fast food categories are McDonald's, BURGER KING, Pizza Hut, KFC, Chili's, TGIF, Hardee's, Ruby Tuesday, Fuddruckers, Quiznos, Dominos, Subway, Starbucks, Mochachino, Seattle's Best and Cinnabon amongst many others.

## Market Entry

The KSA does not follow any strict guidelines for the franchise business operation. Commercial company law is being used as a baseline for the franchise business model. Currently, the KSA Government has allowed wholesale and retail trade in the country and has also allowed foreign partners to pose 75 per cent ownership in a joint venture partnership model. A foreign franchisor has to ensure that the brand or the concept must belong to the original franchisor and not adopted from any third-country sub franchise.

## Paid-up Capital

The KSA market is open to foreign franchisors and franchisees with very limited legal restrictions. Nationals of the GCC are considered as Saudi nationals and not foreign investors. A foreign investor investing in the service sector in the KSA can establish either a branch office or a 100 per cent owned LLC. In the event of a foreign franchisor, they can operate the company-owned outlets or service its franchisees. The SAGIA does not mandate any minimal paid-up capital for services entity, but the companies, typically, have a minimum capital of USD 0.13 Million

## Registration time

To register as a franchise, it may take time four to six months.

## Ownership structure

Most of the franchise operations are owned by a few selected business families in the KSA who have the business structure and resource required to manage operations.

## Cultural concern

The KSA is a very conservative country. An operator of food service restaurant has to consider the cultural boundaries of the country while operating their business in the country. In the KSA, a Muslim has to say prayers five times in a day and business is required to be closed during these times. There should be two entrances in every restaurants and two sitting areas arrangement for the male and the female and her families, respectively. In addition, public facilities are also differentiated by the gender in the KSA. Workweek in the KSA is from Sunday to Thursday, Arabic is the official language of the

---

country, and English is the business language. The KSA has reduced the work hours from eight to six during the holy Ramadan month.

### **Developing Franchise in the KSA**

The KSA does not apply strict restriction to the foreign franchisors and franchisees for entering into the country's market. A foreign franchisor is treated under the foreign investment regulation. There are basically two types of foreign investments: service and trading. A non-GCC investor, who is related to various service activities including restaurants, maintenance, IT support, and other services, can establish a branch office or a wholly owned limited liability company in the KSA. Foreign franchisors also can operate company-owned outlets. The SAGIA is the institution, which takes care of the investment of the KSA. A company has to have a minimum amount of USD 0.13 million as an initial paid-up capital as per the SAGIA rules. It can be observed from the KSA restaurant market that foreign restaurant brands are preferring the franchise business model because it allows them to access local expertise, connections, and the expertise of the franchisee.

There are some restrictions for the foreign investors who are related to the retail or wholesale trading business. They need to provide at least 25 per cent ownership to the Saudi nationals or the company which owns the franchise brand to set up a limited liability company (LLC) in the country.

### **Foreign Exchange and Tax Law**

There is no exchange control that is enforced, but typically payments and transactions are effected in Saudi Riyals.

In KSA payment are generally made in Saudi Riyals. There is no personal income tax in the KSA, which makes it an ideal place for individual and employees. There are basically two types of tax prevailing in the country, namely corporate tax and withholding tax or Zakat (Islamic Wealth tax). A company's shareholding structures usually determine the corporate tax, while withholding tax is a kind of compulsory tax for the persons or entities that are responsible for making payment to a non-resident in terms rents royalties and management fees.

### **Franchise Law**

**Legislation:** Although there is no such law related to franchisee business model in the KSA, Ministerial Order number 1012 of 17/09/1412(corresponding to 22 March, 1992) have announced that franchisee business will be evaluated by the KSA commercial agency.

**Pre-contractual discloser:** Foreign investors have to be trustworthy as per the Sharia law of the KSA. A foreign investor has to submit the following:

- Full discloser of the material facts and information regarding the company
- Track record of the company
- Commercial statement and financial statement of the last three years

---

In addition to that, a company also required to convince the Government that what kind of benefit and value addition it will bring to the country's economy.

**Registration procedure:** According to the commercial agency law, a franchise agreement has to be register under the "Commercial agency's Register" at the MOCI within six months from agreement taking effect. Only the franchisee is responsible for the registration procedure and only a KSA individual or entity is allowed to register a franchise.

The registration procedure requires the following:

- An application made to the MOCI
- Franchise agreements and corresponding supporting documents need to be translated into Arabic language, which should be certified by a translation office
- A copy of commercial registration of the agreement
- A declaration that the capital of the company is owned by a Saudi national or an entity and the authorised representative is a Saudi national, too

Usually, a franchise contract provides legitimacy and certain kind of protection to the franchisee. The KSA has recently allowed a nominal value for the registration procedure. The registration also ensures prevention of appointment of new franchisee in case of any termination of the old franchisee until the dispute is resolved with the previous franchisee.

### **Compulsory clause**

The Sharia Law has allowed both the franchisor and franchisee a significant amount of autonomy to structure their contract. A franchise agreement must abide by the following rules and regulations:

- Execution should be directly with the franchisor in the country of origin of the franchise
- The rights, responsibilities, and obligation of each party has to be clearly explained in the agreement
- Capacity and the Nationality should be mentioned
- The franchise subject should be mentioned
- Geographical area of business should be clearly mentioned
- Type of services, works, and goods should be mentioned clearly
- Duration of the franchise agreement should be clearly mentioned
- The termination method and expiry date should be mentioned

### **Guarantees and protection**

---

In the KSA, guarantees are used for security purpose. A franchisor can ask for a guarantee and can include that in the franchise agreement. One can use personal guarantee against an individual and against a company presuming it has the assets or capital to back the guarantee. The enforceability of a guarantee is subject to the Sharia Law. It should not breach the Sharia Law or any public policy.

### **Tax Liability of a Franchisor**

The tax liability of a franchisor is basically based on the corporation's shareholding structure. The Government of the KSA has allowed a corporate tax exemption from the nationals of the KSA and the GCC; however, they only need to pay Zakat at the rate of only 2.5 per cent. Hence, if a franchisor is a Saudi national or a GCC national, then he has to pay only Zakat.

While a foreign franchisor operating in the KSA is required to pay corporate tax at the rate of 20 per cent. If a franchise agreement consists of Saudi or GCC national shareholders and non-Saudi national shareholder, then corporate tax at a rate of 20 per cent will be applied to the non-Saudi nationals and Zakat at the rate of 2.5 per cent will be applied to the Saudi or GCC shareholder. Moreover, there is no VAT, transfer tax, Stamp duty, sales tax, property tax, regional tax, and municipality tax in the KSA.

### **Tax Liability of a Franchisee**

There is no tax applicable on an individual franchisee; however, a Zakat or corporate tax is applicable on a franchisee entity depending on their shareholding pattern. Only 2.5 per cent rate of Zakat will be applicable if the franchisee is a Saudi or GCC national and 20 per cent rate of corporate tax will be applicable if a franchisee is a non-Saudi national. Franchisees are also required to withhold tax at the rate of 5-20 per cent for payment made to non-residents. Royalties and payments related to service made to head office are subject to 15 per cent withholding tax. Similarly, a royalty that is paid to a foreign franchisor is subject to 15 per cent withholding tax. Withholding tax is only applicable on the franchisee and they are responsible to incur penalty if they fail to provide the withholding tax in time.

### **Efficient Tax Structure**

There are several tax treaties in the KSA including the United Kingdom, Russia, China, Netherlands, Japan, and Spain, which are offering tax break for foreign franchisors and franchisees. There are also tax incentives provided by the the KSA to the companies establishing entities in specific economic zones.

### **Agreement of Restriction**

There is agreement in a franchise contract related to the franchisee competition. It can be seen often that a franchisor is restricting a franchisee from competing with the other franchisee.

### **Cancellation of Contract**

The franchise agreement can be cancelled as per the applicable terms and conditions. Although there is no such specific rule for the franchise agreement though it is required for the both parties to mention the stipulated time frame of the agreement and the clause to terminate or cancel the contract. However, a KSA court can enforce clauses, which can allow an automatic expiration or non-

---

renewal of a franchise. In addition to that, a KSA court also can enforce certain agreements, which deter the franchisor to compensate the franchisee upon termination.

### **Regulation on Corruption and Terrorism**

There are several regulations on serious criminal offence including corruption, bribery, and money laundering. There is the anti-bribery law, which is applicable to the person related to any bribery operation. An aggressive campaign has been initiated by the national anti-corruption commission to get transparency against bribery and corruption.

### **Resolving Dispute between Parties**

Both the parties of a franchise agreement are free to specify the dispute resolution mechanism. Usually, a dispute is regulated by the court unless and until any party (franchisor or franchisee) opt for arbitration in the franchise agreement.

*More information on the company laws and procedures is provided in the Appendix from page number 205*

## Chapter 3: Halal

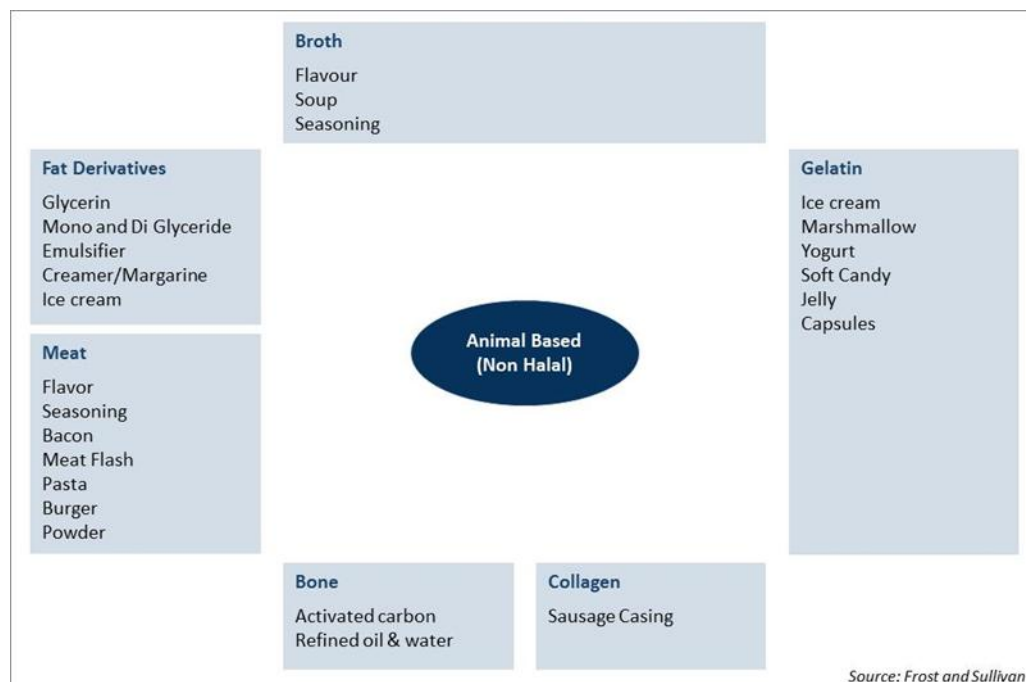
### Current Status of Halal

Halal represents the food, which is permissible to consume under the Islamic Law (Sharia) and does not contain haram/forbidden contents like pork. Animals dead before slaughter, carnivorous animals, birds of prey, alcohol intoxicants, food made with whey prepared with non-microbial enzyme, rennet, animal shortening, monoglycerides and triglycerides from an animal source, sodium stearoyl-lactylate, L-cysteine are all considered “haram”.

Islam advises its followers to consume only Halal foods. This awareness was popularised and strengthened amongst the Muslim community, owing to the virtues of consuming clean and hygienic food. Due to groundbreaking innovations in food technology, Muslims are prone to being exposed to various ingredients and manufactured food imported into their countries. Most common being food additives, gelatin, emulsifiers, and rennet in cheese production. Against this backdrop, Halal food markets started to flourish as the safest form of food for Muslims.

Halal food mostly represents animals, which are slaughtered according to Quran rituals, called Sabah/Zambia. In this method, animals are slaughtered using a sharp knife to make a deep incision through throat, carotid artery, windpipe, and jugular veins so that the blood from the body is drained out completely before processing. The animals that are slaughtered using Halal method are aligned along the direction of Mecca and animals should be slaughtered upon the name of Allah, the almighty, and the slaughtering house should not be near the vicinity of any pig-slaughtering area. It also suggests that the animal has to be well fed and given water to drink prior to the act.

#### Exhibit 1





---

## Regulations of Halal and Procedures of Acquiring Certification

The KSA has laid upon an approved set of guidelines for non-Muslim countries that export Halal products to ensure strict adherence to Islamic regulations, stipulating everything from the feed of livestock to slaughtering procedures.

It is mandatory for meat importing countries to possess the “Halal certificate” and “Certificate of Islamic Slaughter”. The certificate needs approval from a recognised Islamic centre of the respective countries. (There are Islamic centres issuing “Halal Slaughtering Certificates” worldwide approved by the “Muslim World League to indicate that the meat is processed at an officially licensed slaughterhouse as per Islamic rules and the company should carry Saudi Food and Drug Authority (SFDA) endorsement. The company should also acquire FSIS certificate, confirming that the Bovine animals or poultry slaughtered were not fed animal protein, animal fats/ animal manure.

### Saudi Halal Food Standards and Import

Exhibit 2

Certificate of Origin	Commercial invoice stating the country of origin	Packing list	Bill of lading (for sea freight) or Airway bill (for airfreight)
Steamship certificate (a document appended to bill of lading or airway bill)	Insurance documents	Special documents (if applicable)	

Source: Frost and Sullivan

All types of food and food products imported to the KSA need to follow the Saudi Arabian Standards Organisation (SASO). This is a government body which determines the standards and labelling requirement for imported foods into Saudi Arabia.

### Business Model to Sell Halal in the KSA

In order to promote the Halal products in the KSA, importing companies need to either collaborate with a KSA franchisee or get into a JV with a local firm. Franchising is a more popular business model as it is more economical and convenient and does not call for huge investment/resources for opening a branch office like JV.

To establish a franchise in the KSA, the foreign Halal franchisor must select a franchisee and should be registered with the Ministry Of Commerce. The parties can deploy their own franchise agreement. JV involves more commitment from the franchisor in terms of capital investment, but in the long run, it would enjoy better tax treatment or economic incentives from the Government. A JV can be contractual or of Limited Liability. In the former method, the foreign company needs to enter into an agreement with a KSA company and it can procure licence from the Government but later the company has to involve Saudi citizens. Although it is not mandatory to have a majority KSA equity percentage, the Government advises the KSA investor to actively participate in the business as it qualifies for certain tax benefits and investment incentives.

### Comparison of Regulations with other Countries

Halal observance and awareness is the highest in food items. The food sector, which comprises primary meat, processed goods, bakery food, and confectionary, makes about 60 per cent of the global market for Halal products. Processed goods represent 35 per cent of the market. In 2012, the Halal food and beverage market accounted 16.6 percent of the global food and beverage market.

Malaysia is well positioned as the international hub of the Halal food industry. Companies leverage on Malaysia’s strength in Halal certification and the Government's promotional efforts to capture the Halal market worldwide.

Halal food is registering a slow growth mainly due to the unanimity on Halal standards. Every country has its own certification and regulation standards for Halal over animal feed, slaughtering, packaging, and logistics. Halal certification authority completely rests with the government of the respective countries.

Currently, there are 122 active Halal certification bodies worldwide, which lead to different logos and standards.

Members of the **Organisation of Islamic Cooperation** (OIC) have their own Halal certification and standards, which vary from one country to another.

Exhibit 3



Out of 57 OIC countries, less than half have Halal import regulations and less than five have separate certification bodies. Export of meat/poultry and their by-products into many Muslim countries within Southeast Asia and the Middle East should have a valid

---

Halal certification issued by a recognised Islamic body. In Singapore, Halal certification is solely monitored and regulated by the Majlis Ugama

In Maldives, the Halal regulation was drafted in 2011 but has not been implemented yet. Inspection and checking happens only at the port of entry and is mainly checked for pork, pork products, alcohol, and Halal certificates.

Royal International Co-operation in relation with Royal Scientific Society (RSS) has taken significant role in developing the Halal certification scheme in Jordan. Mandatory Halal logo on food products is a part of the regulations in this region. The frame work of regulation was prepared mainly by the Ministry of Trade and the Ministry of Agriculture, the Jordan Food and Drug Administration (JFDA), and Department of General ifta. Every Halal product has to go through the stringent standards set by these bodies.

In Brunei, the guidelines used are Halal Certification (BCG HALAL 1), Guideline for Halal Compliance Audit (BCG HALAL2), Guideline for Certification of Halal Compliance Auditor (BCG HALAL3), and Guideline for Halal Surveillance Audit (BCG HALAL 4). International and domestic companies who want to market their products in the global market have to go through another certification body, Ghanim International Food Corporation SdnBhd, a semi-government agency to market their products as “Brunei Halal” products.

Entry into Europe’s Halal market has been made easier with the Port of Rotterdam, which was officially designated Halal at the World Islamic Economic Forum, and is the first globally certified port to monitor Halal food. The Halal certificates and Halal symbols (Kosher) are recapitulated here.

HAB (Halal Authority Board) Worldwide is an organisation striving to ensure uniformity in Halal regulation across the globe. It sets out guidelines on overall aspects of food production, storage, delivery, and cleaning and cleansing in order to prevent contamination from pork and other unacceptable derivatives.

In Thailand, the Halal Standard Institute of Thailand (HIT) is the religious body which ensures the standard according to Islamic Law and International Standard. The National Bureau of Agricultural Commodity and Food Standards (ACFS), along with the HIT, have published a handbook for Halal Audit and Halal Logo application procedure. The Thai Government backs up the entire approval process.

Any new entrepreneur who needs to use the Halal logo should submit an application to the Central Islamic committee Office of Thailand. New companies without Halal certification have to attend training from HIT. After approval of the product, the Central Islamic committee office of Thailand forms an audit committee and arranges for onsite audit processes. After approval of audit committee the application goes through final approval for the use of Halal logo.

In Malaysia, Halal regulations and standards are governed by the Development of Standard Malaysia (DSM), which has appointed SIRIM Berhad as the sole national Standard Development agency to manage and develop the Malaysian standards and regulations for Halal. In Malaysia, Halal must be observed in the entire life cycle of the product from production to distribution and all related activities. Malaysia follows MS 1500-2004 standard guidelines for the food industry on the preparation and handling of Halal food (including nutrient supplement). The Malaysian Halal food standard and

---

certification programme has been accepted and used by FAO/Codex commission in the preparation of the Codex Halal standard (Codex Alimentarius Commission – Codex General Standard for the labelling of pre-packed Foods – Codex Stan 1-1985, subsection CAC/GL 024-1997 – General Guidelines for “HALAL”). AmalMerge (M) Sdn. Bhd. provides guidance and advisory services to potential Halal manufacturers for certification.

Apart from the regional certification body, there are independent centralised organisations worldwide to certify Halal food.

## Islamic Bodies Worldwide for Halal Certification of Red Meat

### Exhibit 4

Islamic organization	Markets with specific listing requirements					All other markets that
	Indonesia	Malaysia	Saudi Arabia	Singapore	UAE and	
Adelaide Mosque Islamic Society of South Australia – ADELAIDE SA		✓		✓	✓	✓
Al-Imam Islamic Society – COLLINGWOOD VIC 3055		✓ EXP: 31/12/14		✓	✓	✓
Australian Halal Development and Accreditation – BRISBANE QLD 4105				✓	✓	✓
Australian Federation of Islamic Councils Inc. – Zetland NSW 2015	✓ NSW only		✓	✓	✓	✓
Australian halal authority and Advisers – BROADMEADOWS VIC		✓ EXP: 31/12/14		✓	✓	✓
Australian Halal Food services – SPRINGWOOD QLD 4127			✓			✓
Global Halal Trade Center Pty Ltd. – PRESTON VIC 3072	✓					✓
Halal Australia Pty Ltd. – AUBURN NSW 2144				✓		✓
Halal certification authority – Australia SYDNEY NSW 2001						✓
Halal certification council – SPRINGWOOD QLD 4127	✓ QLD only			✓		✓
Islamic Council of Western Australia – BURSWOOD WA 6100						✓
Muslim Association of RiverinaWaga WAGGA Inc-WAGGA				✓		✓
Perth Mosque Incorporated – MOUNT LAWLY WA 6050		✓ EXP: 31/12/14		✓	✓	✓
Supreme Islamic Council of halal meat in Australia Inc. – Auburn	✓ NSW only	✓	✓	✓	✓	✓
Western Australia Halal Authority – Maddington WA 6109	✓ NT & WA only			✓		✓
Halal meat board of Western Australia – Mount Lawley WA 6050			✓			✓
Halal-Sadiq services – DIANELLA						✓
Halal supervisory board of South Australia for the kingdom of Saudi Arabia-ADELAIDE SA 5000			✓			✓
Islamic Association of Geraldton – GERALDTON WA 6530		✓				✓
Islamic Association of Katanning – Katanning WA 6317		✓			✓	✓
Islamic coordinating council of Victoria – EAST BRUNSWICK VIC	✓ VIC only	✓	✓	✓	✓	✓

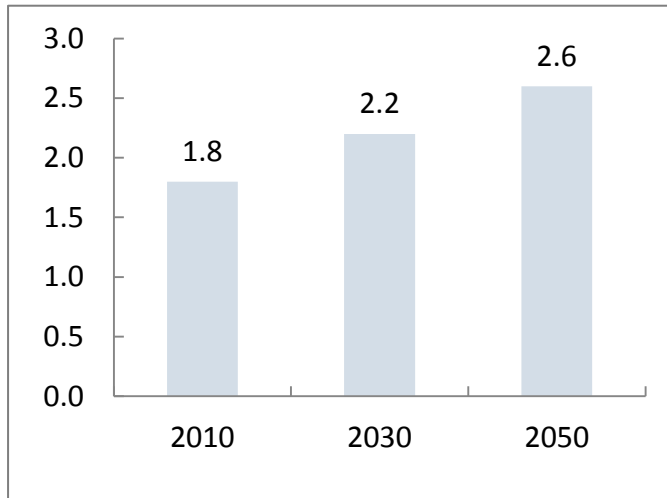
Source: Australian Government/Department of Agriculture

## The KSA Halal Market

The Halal food industry is faring well with the growing number of Muslim population worldwide (5 per cent, annually). In 2013, the global Halal Food markets registered revenue worth USD 1.1 trillion and accounted for 16.6 per cent of the global Food and Beverage market during 2012. Annual growth rate of the industry is 20 per cent and is expected to touch USD 1.6 trillion by 2018.

## World Muslim Population Growth (in Billion)

Exhibit 5

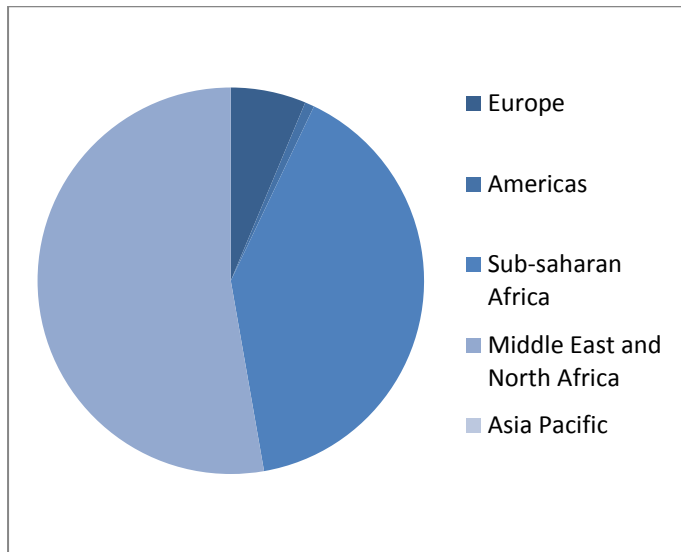


Source: Frost and Sullivan

As per the research study conducted by a US based research firm Pew Research Centre, the Muslim Population accounts for 23 per cent of the global population and is likely to increase by around 35 per cent in the next 20 years. As of 2014, there are 2.08 billion Muslims all over the world.

## Breakdown of World Muslim Population

Exhibit 6



Source: PEW Research

As per the research study conducted by a US based research firm Pew Research Centre The Muslim Population accounts for 23 per cent of the global population and is likely to increase by around 35 per cent in the next 20 years. As of 2014, there are 2.08 billion Muslims all over the world.

Major Halal food growth regions are the Middle East and North Africa (MENA) and South and South East Asia. Malaysia is the market leader in Halal food, followed by Turkey.

## Country-wise Food Consumption share with the GCC (%)

Exhibit 7

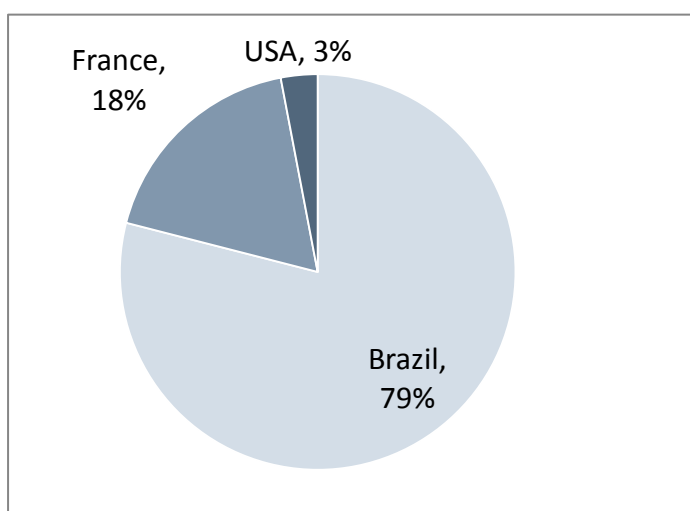
Country	2011	2013	2015
The KSA	64.9%	64.5%	64.09%
The UAE	18.3%	18.5%	18.9%
Qatar	3.6%	3.7%	3.9%
Oman	6.1%	6.2%	6.3%
Kuwait	5.5%	5.5%	5.4%
Bahrain	1.5%	1.5%	1.5%

*Source: Frost and Sullivan*

Food consumption of the GCC is likely to reach 51 million tonne by 2020 with an annual average growth rate (AAGR) of 4.6 per cent. The KSA accounted for 64 per cent of the GCC's USD9-billion food and beverage market in 2013. In tandem with the growing population of the GCC, the annual food imports would expand from USD25.8 billion in 2010 to USD53 billion in 2020 and Halal meat imports (chicken and beef) are assumed to exceed 1 million metric tonne.

## Major Halal Poultry Importers — The KSA

Exhibit 9

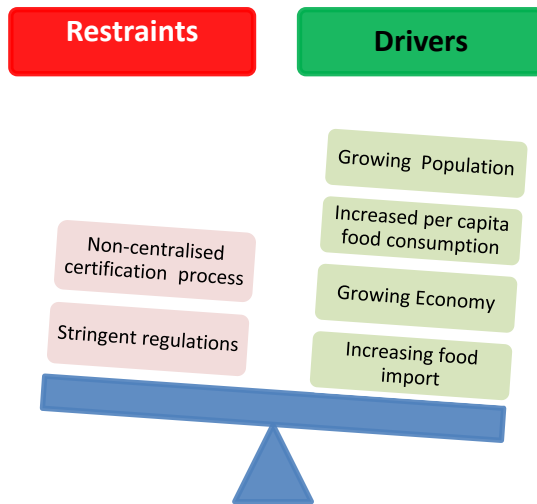


As of 2013, the ME Halal industry was worth USD 20 billion. The KSA was world's largest importer of broiler meat (875,259 MT). Brazil, with 79 per cent market share, dominated the KSA poultry import market during the period, followed by France (18 per cent) and the US (3 per cent).

The KSA's Halal product and service industry is assumed to gain market share of USD 2.3 trillion (USD

Al-Radwa Farms, Al-Watania, Supreme Foods, Nash Meat and Sunbullah are a few companies involved in the Halal food manufacturing in the KSA.

### Drivers and Restraints

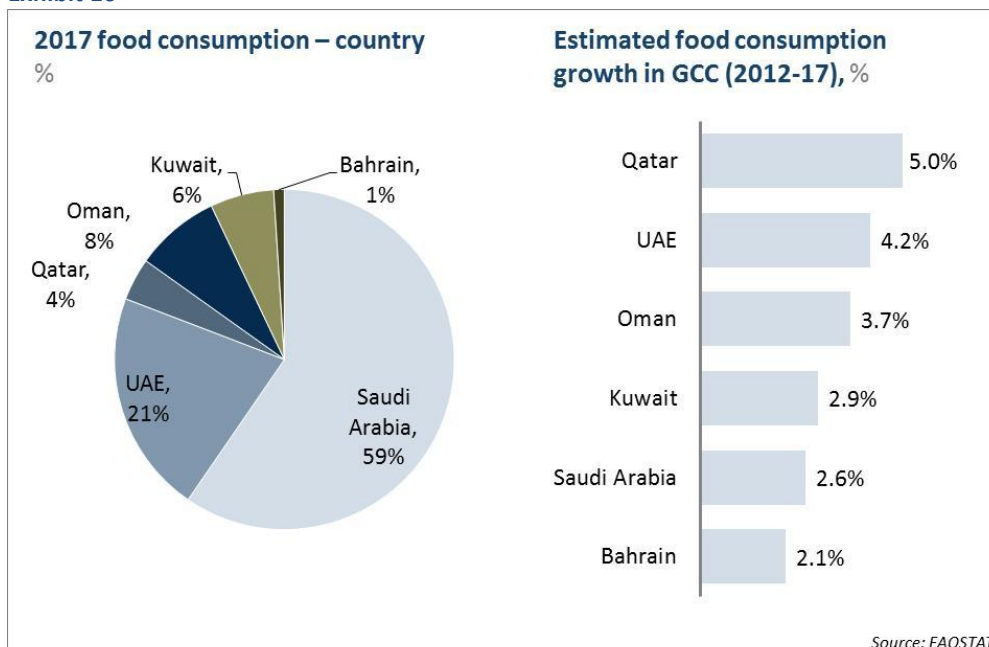


Source: Frost and Sullivan

The KSA’s strong economy, a GDP of USD 719 billion (2014), coupled with a growing population of 27.3 million (2014) with disposable income, is fuelling the growth of the Halal food market in the region. Being a 100 per cent Muslim country, Halal has immense growth potential in the KSA.

Mecca and Madina, the two biggest pilgrimage centres in the KSA, welcome millions of Muslims from all over the world, and add on to the growth of Halal food. The KSA’s per capita consumption of food is one of the largest in the entire GCC at 872kg/year.

### Exhibit 10



The key challenges are stringent regulation procedures for Halal food products and non-centralised certification process. The Halal certification process varies from country to country, which makes it difficult to trade between other Muslim regions.





---

## Chapter 4: Actual Condition of Consumption

### Characteristics and Purchase Need of Consumers

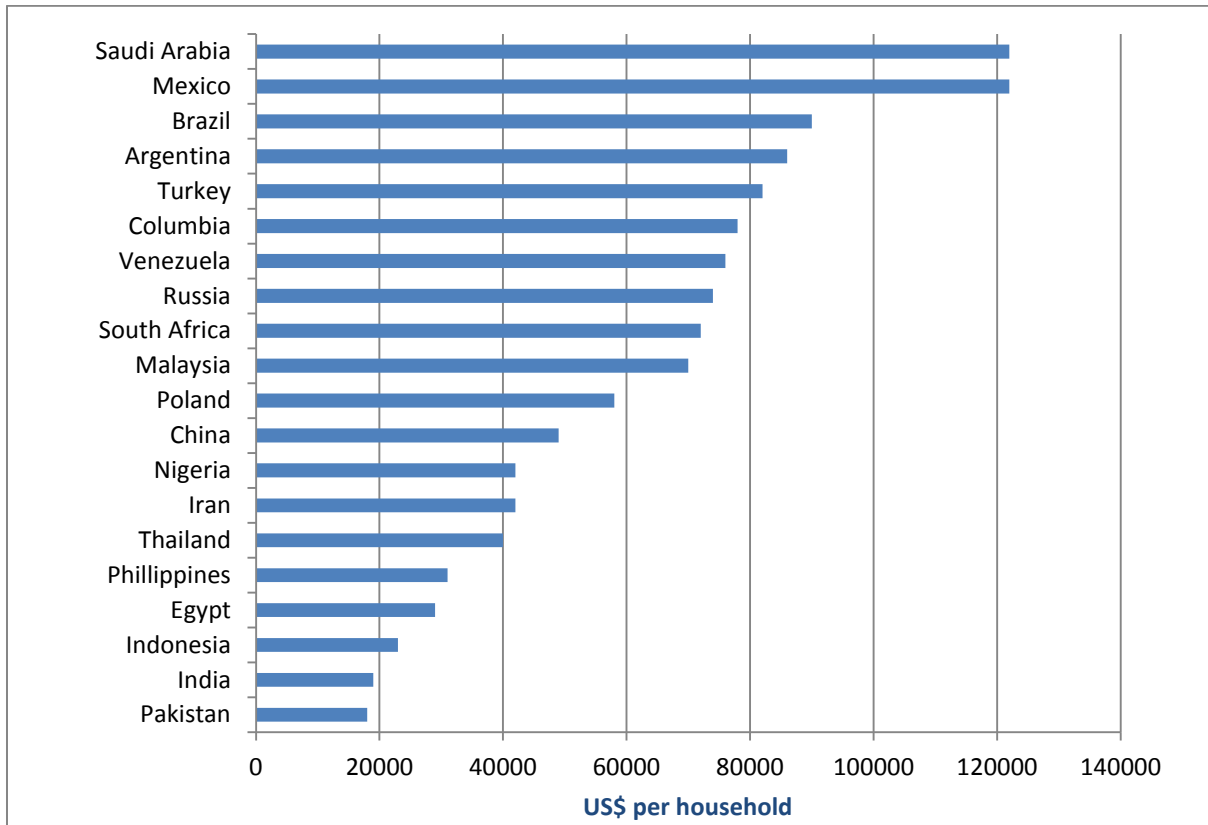
Compared to other nations, the KSA consumers remained unaffected even during 2007-2009. Such confidence in spending suggests that consumers in the KSA believe in the resilience and strength of their economy and their Government. Moreover, lower debt levels and oil wealth of the country gives consumers a great sense of freedom. The consumer spending patterns vary according to markets and their demography. People with larger families are more careful and conservative in their purchases. The KSA nationals feel protected from global economic crisis and are more secure about their financial stability than expatriates are. This is mainly because the nationals earn more than their expatriate counterparts with the new “Nitaqat “law in place. In addition to this, the KSA citizens are provided ownership stakes in companies along with their salaries, giving them additional financial security.

Consumers in the KSA like to splurge on luxury brands and big-ticket items and this trend has not reduced even during the recession. A growing young population with a disposable income is the one of the key driving factors of consumer markets in the region.

Amongst the emerging markets, the KSA has the maximum disposable income, supported by the oil wealth of the country.

**Exhibit 1**

**Average Disposable Income of a Decile, 10 Households in the World's 20 largest Emerging Countries, 2013**



Source: Euromonitor

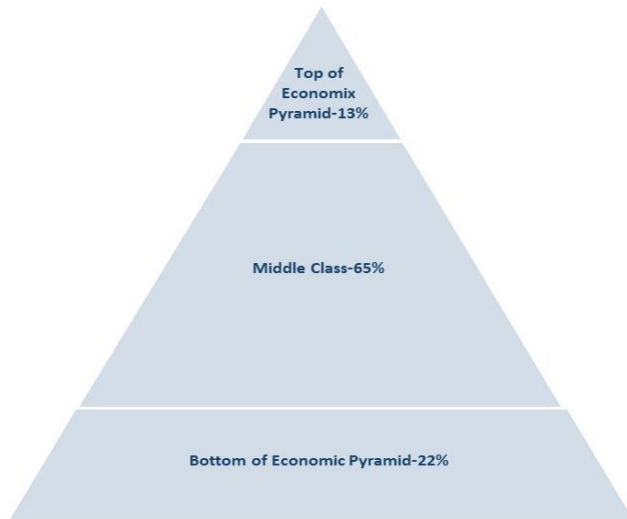
It is likely that by 2020, more than 25 per cent of the KSA households will command an income of over USD 50,000/year.

---

The growing population is another key factor boosting the consumer market in the KSA. The KSA population is likely to reach to 31.1million by 2016 and the GDP per capital is likely to rise from USD 20,539 in 2011 to USD24, 818 in 2016.

**Exhibit 2**

**Segmentation of population by income**

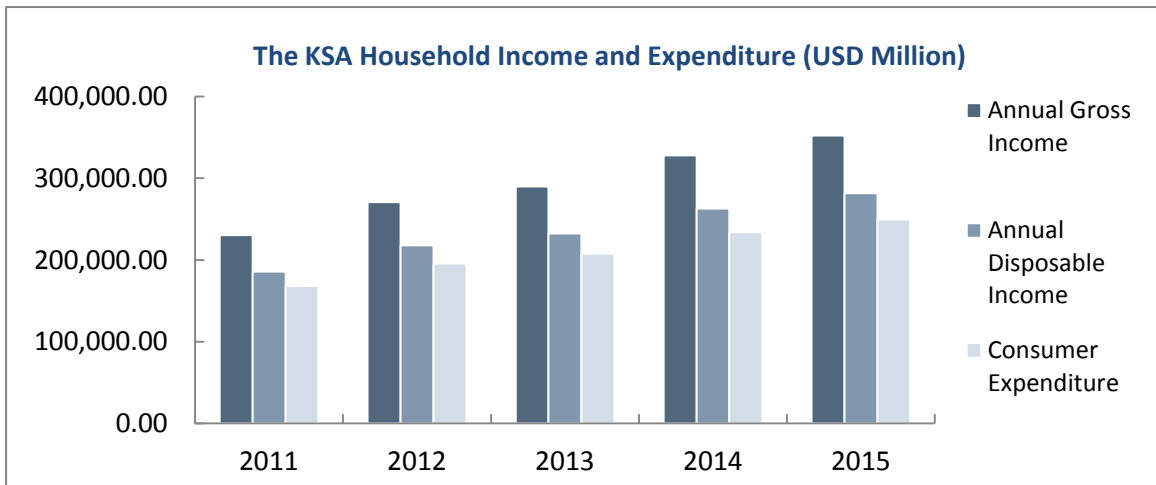


*Source: Frost and Sullivan*

Increasing middle class population plays a significant role in steering consumerism in this region. The middle class population in the KSA has expanded from 22,200 in 1970 to 4.6 million in 2013.

The ever-growing expatriate population is contributing a sizeable growth momentum, thereby increasing the purchasing capacity of the consumer. As per the Central Department of the KSA, out of the 30 million populations, one-third was expatriates in 2013. Encouraged by the international and local, economic, social, and governmental forces, the KSA is emerging as a consumer society. With the overall growth in income levels, purchasing power of the people has increased tremendously. In 2011, the wages of the government employees has increased four-fold compared to previous years.

Exhibit 3



Source: Frost and Sullivan

In the quest to achieve a global status, the KSA is striving towards modernisation. The KSA has the most favourable retail markets in the region, with retail sales expected to touch USD 81 billion by 2013.

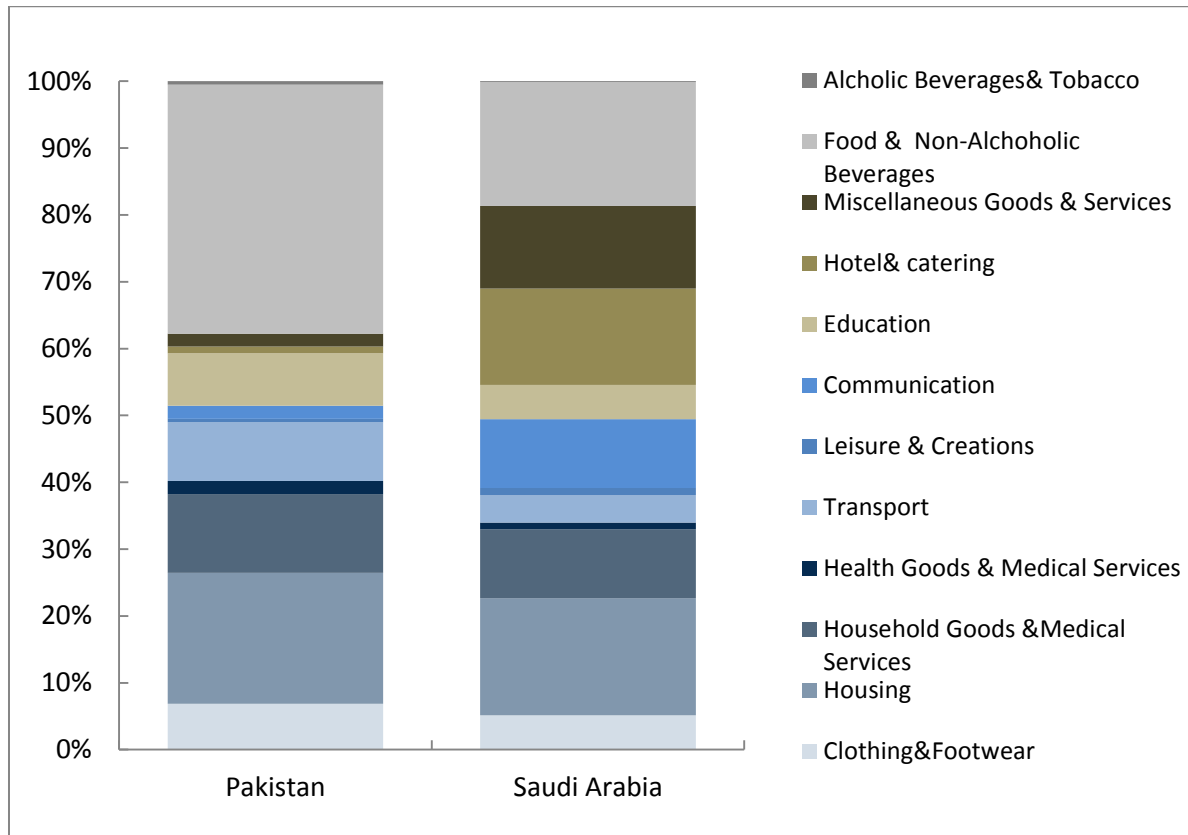
The KSA population is likely to reach 31.1million by 2016 and the GDP per capita is likely to rise from USD 20,539 in 2011 to USD 24,818 in 2016. The KSA has set an ambitious goal to achieve the status of the sixth richest economy in the world by 2050.

What makes the Arab market unique is that Islam and the Arab cultures are interconnected. The religion always plays an important role in society as well as in businesses. Its influence on the consumers is very significant and though the Saudis yearns for modernity and progress, they give more importance to their religious and cultural traditions. The Arabs like Western brands, but they ensure that these brands do not contradict their religious values.

Today, the KSA markets are flooded with a variety of international products ranging from high-end gaming consoles to branded apparels. Even the holy city of Mecca has the finest malls, luxury hotels, specialised boutiques and celebrity signature show rooms.

**Comparison—Consumer Expenditure by Decile 10 Households in the KSA and Pakistan**

**Exhibit 4**



Source: Euromonitor

Compared to other emerging countries, the KSA spends less on essentials like food and housing.

The KSA Electronic market is the biggest in the entire Middle East. Teenagers' indulgence in high-end technology products is driving the market.

Forty per cent of the regional expenditure is into electronic items. And it is expected to reach USD 8.24 billion by 2016, which accounts a rise of 31 Per cent. Smart phones are the most popular items in the consumer electronics device segment.

By 2020, fashion (clothing and footwear), leisure, and communications in the KSA are likely to experience per capita growth of about 30per cent.

The KSA consumers spend more on restaurants and hotels than any other country. Dining out with family is a strong cultural custom in the KSA. The fast food industry in the country is likely to touch USD 4.5 billion in the next three years. The food market, which includes all types of restaurants and fast food joints, are growing exponentially. This is because the KSA's 50 percent of the population is under the age of 25. Moreover, limited social outlets are encouraging youngsters to spend on these outlets of fast food as part of recreation and socialisation.

#### Exhibit 5

#### Overall Food consumption(per capita consumption)

	2005	2006	2007	2008	2009	2010	2011	2012E	2013 E
<b>Population in millions</b>	23.1	23.5	24.2	24.9	25.5	26.2	26.8	27.5	28
<b>Meat (Kg)</b>	53	53	53	53	52	52	52	52	52
<b>Vegetables(Kg)</b>	117	117	117	117	116	116	117	117	118
<b>Fruits(Kg)</b>	98	100	101	103	104	105	105	105	105

Source: Frost and Sullivan

Meat, dairy products, rice, fish, fresh fruits, and fresh and processed vegetable consumption has been increasing every year. Youth population growth in the KSA is the major factor boosting the demand level on packaged and processed food products. The younger generation, which is health conscious, has recently started indulging in healthy food.

**Exhibit 6**

**Consumer household Goods and Service- 2012(USD Million)**

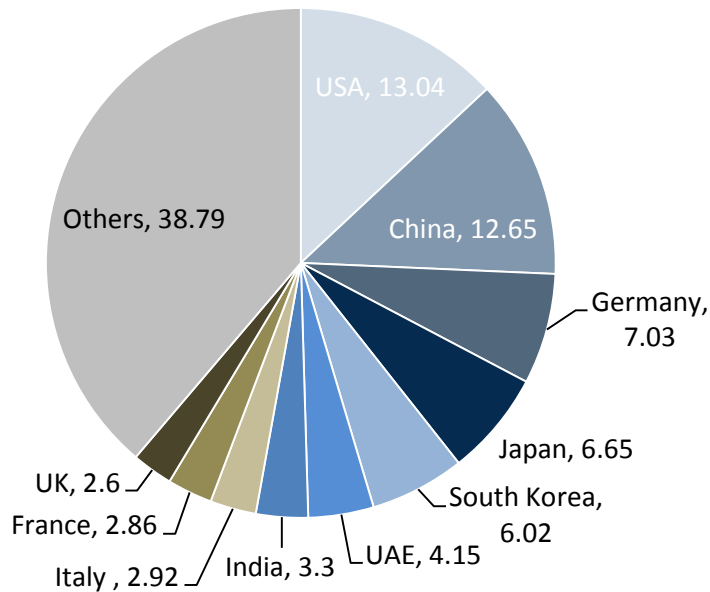
Furniture and furnishing, carpets and other floor coverings	Household apparels	Household appliances	Household utensils	Hardware and DIY goods	Household and domestic services
5,410.30	1,725.90	3,525.20	981	1,861.10	3,698.70

Source: Euro monitor

A great deal of consumption behaviour in this region is driven by emulation of western culture. The KSA depends heavily on imports for most of its products and services. Import of goods and services has increased from USD 174.2 billion in 2010 to ~ USD 215.2 billion in 2012. The Imports account to 31% per cent of the country’s GDP.

**Exhibit 7**

**Top Import partners of the KSA — 2013(%)**



Source: Global Edge



---

**Exhibit 8**  
**Lifestyle Indicators**

Lifestyle indicators	2011	2012	2013	2014	2015
Internet Users ('000)	11,826.80	13,783.70	15,842	17,096	18,429
New Registrations of Passenger Cars ('000)	460	540	570	614	0
Consumer Expenditure on Food (USD million)	40,198.50	46,180.10	48,373.00	53,785	56,664

*Source: Frost and Sullivan*

In 2013, the number of Facebook users in the KSA has reached 7.8 million and the number of Twitter users crossed 4.8 million.

Social media and advertising campaigning have also played an important role in spreading consumerism in this region. The unparalleled growth of supermarkets, hypermarkets, and shopping malls is rapidly increasing and stimulating the buying instincts of citizens, too.

Some of the Government policies and economic and social factors have profoundly spread consumerism in the KSA. A dazzling array of luxury items becomes affordable for everyone with the liberal import policies. Educated women in the KSA have also started taking decisions in their family purchases and they are the new targets for advertisers.

## Major Business Locations

**Riyadh**, the capital of the KSA is a modern city, strategically located at the heart of the country, is a metropolitan city. The city is growing exorbitantly and major malls and commercial centres are mushrooming everywhere. Multimillion Riyadh metro projects have already started and will become functional very soon. Al Riyadh Development Authority takes care of all the development activities of Riyadh. With so many upcoming turnkey projects and real estate construction, Riyadh is on its way to become the busiest city in the KSA.

**Eastern Province** is the largest province in the country. It hosts the major oil production in the country. The province is blessed with beautiful beaches, corniche, oasis, and gardens. Dammam is the regional capital of the Eastern Province. Majority of the KSA population stays in this region. Local agriculture and livestock rearing makes it an attractive place to live in. There are few ports in the region, which make it ideal for trading.

Jubail Industrial City, which is considered as the world’s largest, fully integrated, and sophisticated petrochemical city, provides jobs to millions of people. Saudi Basic Industries Limited (SABIC) is the world’s fourth largest petrochemical company and is located in the Eastern Province.

**Jeddah** is the second biggest city in the KSA. It is known as the port and trading city of the KSA and is known as the commercial capital of the country. It is also considered as one of the wealthiest cities in the entire Middle East. Saudi Arabian Airlines and conglomerates like the Saudi Binladin Group are headquartered in Jeddah. The Jeddah Municipality is planning to invest around USD 600 million for various projects in the city. Hundreds of other projects are also in the pipeline which will no doubt take Jeddah a long way in the path of development.

### Important cities in the KSA

<b>Riyadh</b>	<ul style="list-style-type: none"> <li>•Riyadh is a modern Arab metropolis, home to around 5.5 million people.</li> <li>•It became the capital of the KSA in 1932.</li> <li>•Its growth since then has been phenomenal.</li> </ul>
<b>Eastern Province</b>	<ul style="list-style-type: none"> <li>•The Eastern Province has a population base of around 3.5 million and is located along the Arabian Gulf Coast.</li> <li>•The capital of the region is Dammam.</li> <li>•It is the centre for commodity trading, wholesale trade, and bulk retail sales.</li> </ul>
<b>Jeddah</b>	<ul style="list-style-type: none"> <li>•It is the second largest city in the KSA.</li> <li>•Jeddah is KSA's commercial capital and is the main port of the country, responsible for half of its sea traffic.</li> <li>•Jeddah is also the hub through which most Muslim pilgrims arrive by air and sea to perform Umrah and Hajj or to visit the two Holy Mosques in Makkah and Medinah</li> </ul>

Source: Frost and Sullivan

Though these are the major business locations, cities like Khamis Mushait and Buraydah are predicated to witness a tremendous growth in the coming years.

### List of Shopping Malls (not exhaustive)

The KSA is indeed a paradise of shopaholics. Malls in the KSA offer luxurious and branded products from all over the world. Most of the international brands have their outlets in the KSA. Saudis indulge a lot in shopping and most of them visit malls/hypermarkets once in a week. This is mainly due to the lack of other entertainment activities in the region. Gender segregation is applicable for most of the malls. Only a few malls allow both the genders.

**Exhibit 10**

Riyadh	Eastern province	West Coast
Al Aziziah Mall	Al Rashid Mall, Khobar	Al Azzizia Hyper Panda, Medinah
Al Othaim Mall	Mall of Dhahran, Dhahran	Al Hasan Mall, Medinah
Euromarche Shopping Centre	Fouad Center, Khobar	Al Rashed Mega Mall, Medinah
Khurais Plaza	Al Juma'a City Centre, Khobar	Al Salam Plaza, Medinah
Faisaliah Shopping Mall	Al Shatea Mall, Dammam	Bin Dawood, Medinah
Rimal centre	Al Waha, Dammam	Abram Al Bait Mall, Makkah
Riyadh Sahara Mall	Khaldoun Plaza, Dammam	Diyafa Mall , Makkah
Granada Centre	Marina Mall, Dammam	Al-Hejaz Mall, Makkah
Kingdom Centre	-	Aziz Mall, Jeddah
Le Mall	-	Hera Avenue, Jeddah
La centria Mall	-	Jareer Mall, Jeddah
Nujood Mall	-	Le mall Jeddah
Hayat mall	-	Al-Najar Jeddah
<i>Others: Al Nakheel Mall, Al-Qassim region</i>	-	<i>Source: Frost and Sullivan</i>
Silicone mall	-	N2 mall Jeddah
Localizer mall	-	Oasis Mall Jeddah
Riyadh Gallery	-	Rawshan mall, Jeddah
Akkariya Buildings	-	Red Sea Mall, Jeddah
Al Mousa Centre	-	Sawari Landmark, Jeddah
Olaya Mall	-	Serafi Mega Mall, Jeddah
Sahara Plaza	-	Sultan Mall, Jeddah
Al Qasar Mall	-	AlTahlia Shopping center, Jeddah
-	-	Andalus Mall, Jeddah
-	-	Mall of Arabia, Jeddah
-	-	Diyafa Mall, Makkah

The KSA is considered as one of the best destination in terms of social, economic dynamics backed up by its oil industry. But it needs to have a strong business strategy in place to lead the nation in all spheres of challenges and opportunities. In order to achieve that, the country has to reduce the dependency on imports and start manufacturing products for at least the domestic consumption.

---

## Findings of Consumer Research to Understand Consumer Preferences

Frost & Sullivan conducted a limited sample consumer survey to understand the preferences and requirements of KSA consumers. The survey objectives were as follows:

- Understand consumer behaviour when availing services in the sectors of retail, food and restaurants, hair dress and beauty parlours, education, healthcare and construction services.
- Understand factors influencing consumer preference for certain vendors / brands for certain services
- Understand any unmet requirements for consumers in the various service sectors

The survey was conducted with a sample of 211 consumers from the cities of Riyadh and Jeddah as these are the biggest business centers in KSA. 109 participants from Jeddah and 102 participants from Riyadh took part in the survey. Gender wise 105 male participants and 106 female participants took part in our survey. The sample was distributed across 3 age groups; 73 participants in the age group of 25-30, 75 in the age group of 31-40 and 63 in the age group of 41-50.

The results of the survey are summarized in this chapter.

The survey results are summarized below by service sector and for each parameter, the survey results are provided in 3 formats – the total response by all respondents, the response split by respondents from Jeddah and Riyadh and the response split by the age group of the respondents.

### Survey Results of the Retail Service Sector

- Frequency of visiting a Retail store: 48% of the overall respondents mentioned that they visit a retail outlet atleast once a week. 60% of respondents in Riyadh and 37% of Jeddah respondents mention visiting retail outlet once a week.
- Panda followed by Al Othaim and Carrefour are the most preferred retail stores in KSA
- Food, Grocery and Beauty/personal care products are the most bought products from retail stores. Within Foods, the most bought commodities are fruits/vegetables, packaged meat and fresh meat. Amongst beauty products, shampoo, creams and oils are the most bought.
- 82% of the respondents prefer shopping at larger malls over local neighbourhood stores. The primary reason for preference of larger malls is the availability of all products under 1 roof.
- Of the respondents, 64% opined preference for Western malls as they believe they find good quality products in Western malls, also it exposes them to newer type of products and gives them the opportunity to try global brands that they like.

- 
- When quizzed on whether the respondents had seen any East Asian retail outlets, only 18% mentioned that they had seen. Of the 38 respondents who mentioned having seen an East Asian retail outlet, 74% had visited them. However, a majority of the overall respondents, about 69% opined that they would love to see more Eastern retail malls and the common reasons cited were it will introduce them to newer products, the prices are more economical in Asian retail outlets and gives them access to more brands and more regional variety.
  - The most common East Asian retail outlets mentioned by the respondents are China Town, Dindin and China Gallery

#### **Survey Results of the Food/Restaurant Service Sector**

- Regarding frequency of visit to a restaurant for eating out, 21% of respondents mentioned once a month and 19% mentioned once a week. Most respondents suggest that they would spend about 50 to 200 SR for eating out typically.
- Fast Food and Casual Dining joints are the most sought after
- For family dinners, fast food joints are most preferred. In case of outing with friends casual dining outlets are preferred, Fine dining restaurants are preferred for birthdays and anniversaries as well as celebrating festivals. Sheesha and cafes are equally preferred when outing with friends.
- 45% of respondents mention that they always eat out whenever they go for shopping. And while doing so they mostly visit fast food joints in the shopping malls.
- 43% of respondents opine that the preference is for Local cuisine for 38% of respondents its Western cuisine and taste is the primary reason for choice of cuisine.
- Of 110 respondents who gave inputs on East Asian Cuisine, 67 preferred Chinese and 9 respondents mentioned preference for Japanese cuisine.

#### **Survey Results of the Beauty/Hair Dressing Service Sector**

- Regarding frequency of visit to a beauty salon, 31% of respondents mentioned once a week and 27% respondents mentioned once in 2 weeks.
- Haircut, Facial, Pedicure/Manicure are the top 3 services availed from a beauty salon.
- Over 50% of respondents mention spending about SR 200 during each visit to a beauty salon/Hair spa.
- When it comes to choice of beauty center/hair salon, cleanliness is the topmost criteria. This is followed by brand, popularity and price.
- 73% of respondents mention having preference for local beauty centers in their neighbourhood.
- 85% of respondents mention not having seen any East Asian beauty center and majority of respondents have not visited one too.
- When questioned on why they would like visiting an East Asian beauty center, most responses indicated that the good experience they get there will be a key reason. Others include good service and good care by beauticians. As to reasons on why they

---

will not like to visit any East Asian beauty center, majority of respondents cited that they do not like the haircuts they give.

#### **Survey Results of the Medical Service Sector**

- 31% of respondents mention visiting medical center for first aid while 24% mention visiting for availing nursing services and 21% for dental care.
- 54% of respondents prefer visiting multispecialty hospitals and 46% prefer neighbourhood clinics.
- Proximity is cited as the main reason for preferring neighbourhood clinics while availability of experienced doctors and presence of numerous specialty departments are the key reasons for preferring multi specialty hospitals

#### **Survey Results of the Housing Service Sector**

- In housing services, maximum usage is for buy/sell/rent services followed by maintenance services. Majority of respondents mention not having availed any of these housing services too. There is no specific preference felt for East Asian Companies in this space
- Education services – 80% of respondents express preference for local schools over foreign institutions. 68% of respondents acknowledge having seen presence of foreign education institutions, but 77% of respondents mention that the foreign institutions are from Western countries. There is a preference for Western schools over East Asian schools and the reasons cited are they have experienced faculty, the curriculum is well developed and gives exposure for learning various languages. Pain points cited with Western institutions are that they are quite expensive and do not impart local regional learnings and Arab to students. 65% of respondents mention that a need for Eastern schools is not perceived.

---

## Brief Profiles of Japanese Service Companies in the KSA

### Daiso

**Daiso** opened its first outlet in Saudi by end of 2005. Daiso Japan operates in Middle East under the joint franchise ownership of Lals Group and Damas Group. They have 7 outlets in Saudi and planning to add on more by end of 2013.

Along with Japanese products, Daiso offers a range of 90,000 items from glassware and crockery to DIY products, gardening accessories to gifts and novelties, even a range of cosmetics, living, gifting, toys and stationery. Daiso products price range starts from Dh.7 onwards. Daiso has adopted the concept of bulk franchised manufacturing to keep prices low and stringent quality checks. Daiso has the capacity to sell 300 different items every month with over 90000 items on its shelves.

#### Daiso outlets in KSA

Al Khobar	Giant Store, Hyper Panda Rakkah
Al Hassa	Al Othaim Mall Almbaraz - Al Hassa
Dammam	Al - Shiraa City Centre 18th Street, King Fahad Road
Dammam	Dareen Mall, Corniche Road
Riyadh	Al Othaim Mall , Khurais Road, Exit 30 Al Naseem
Riyadh	Rabwa
Madina	Al Mannar Plaza, Near Vegetable Market

### Beard Papa

It is a chain of cream puff stores started in Japan by the company Mugino Co Ltd. Specialized product is a choux pastry shell filled with whipped cream custard, available in vanilla, chocolate, and specialty flavors such as green tea, strawberry, Nutella, Limoncello, coconut creme, Black Sesame, Cheese, Almond cream, Azuki bean, Pineapple, Matcha Azuki, Durian, Hazelnut, Apple Cinnamon, Hazelnut, Cookie and Creme, Key Lime Pie, Banana, Piña Colada, Dulce de leche, mango, pumpkin, S'more, Earl Grey tea, éclair, and coffee. In addition, Saudi Arabia location has Cinnamon, Dates, and Pistachio flavors. The different flavors are sold on a rotating schedule. Beard Papa operates in Middle East by entering into partnership with Magnolia Restaurants

#### Beard Papa Outlets in KSA

Mohamediah	Al-Jazeera Paints Building, Intersection of Takhassusi Street and King Abdullah
Riyadh	8118 King AbdulAziz Rd.
Riyadh	Kingdom Mall

---

## Chapter 5: Service Sector in the KSA

The service sector of the Kingdom of Saudi Arabia has been growing radically since second half of the 20<sup>th</sup> century, owing to huge revenue generation from petroleum sales and high level of Government expenditure. Around 70 per cent of the total workforce in the KSA is working in the service sector including:

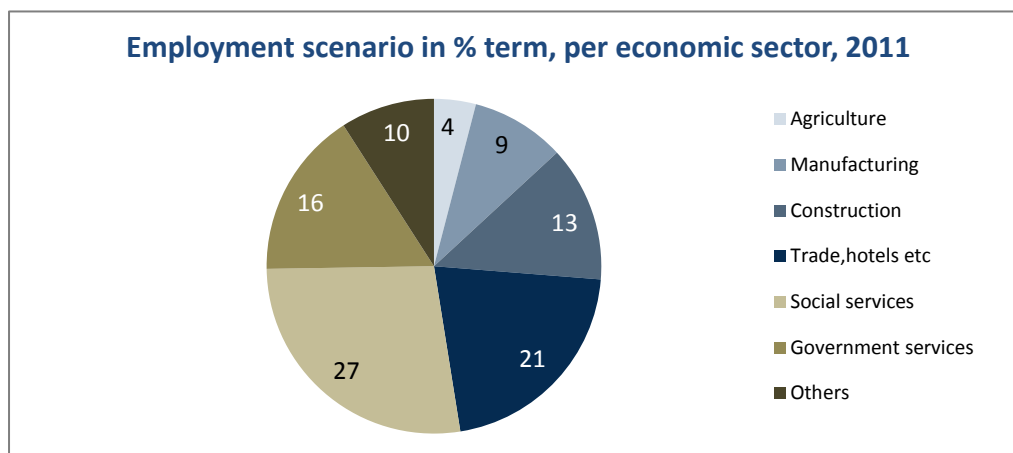
- Civil administration
- Defence
- Construction
- Wholesale
- Retail sales
- Hospitality and tourism
- Oil and gas production

With the advancement of the KSA economy, demand for various sophisticated professional services has increased like:

- Banking
- Telecommunications
- Information technology
- Legal
- Health care
- Marketing

### Service sector Market Overview

Exhibit 1

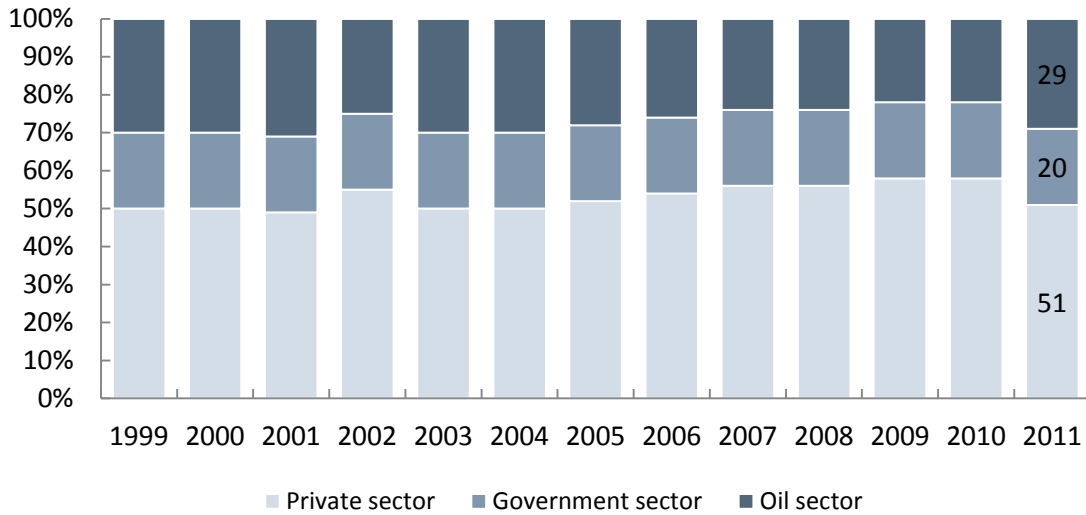


Source: Frost and Sullivan



**Exhibit 2**

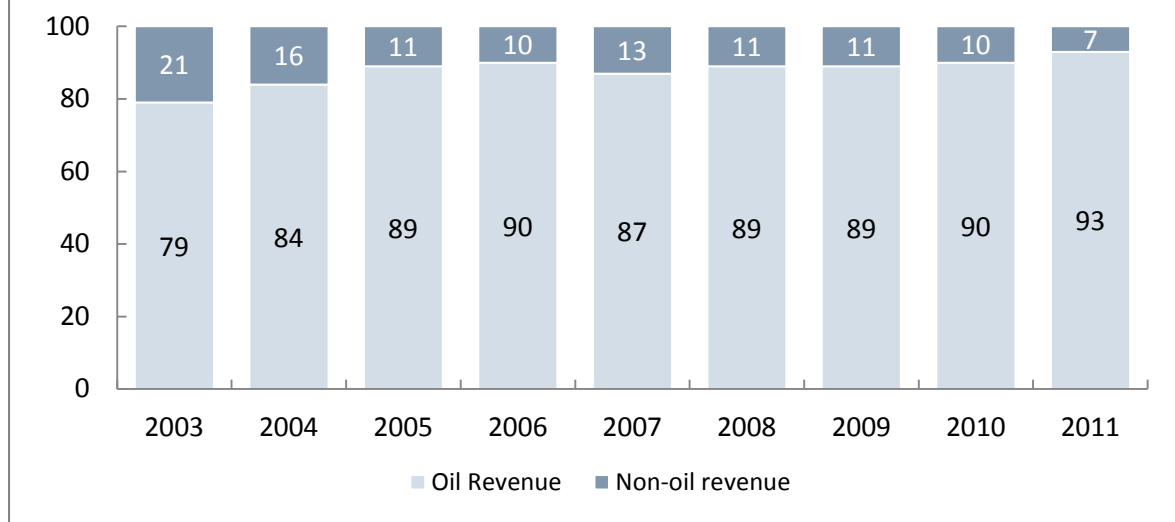
**Saudi economy per sector 1999-2011,**  
In % of total



Source: MEP, CDSI

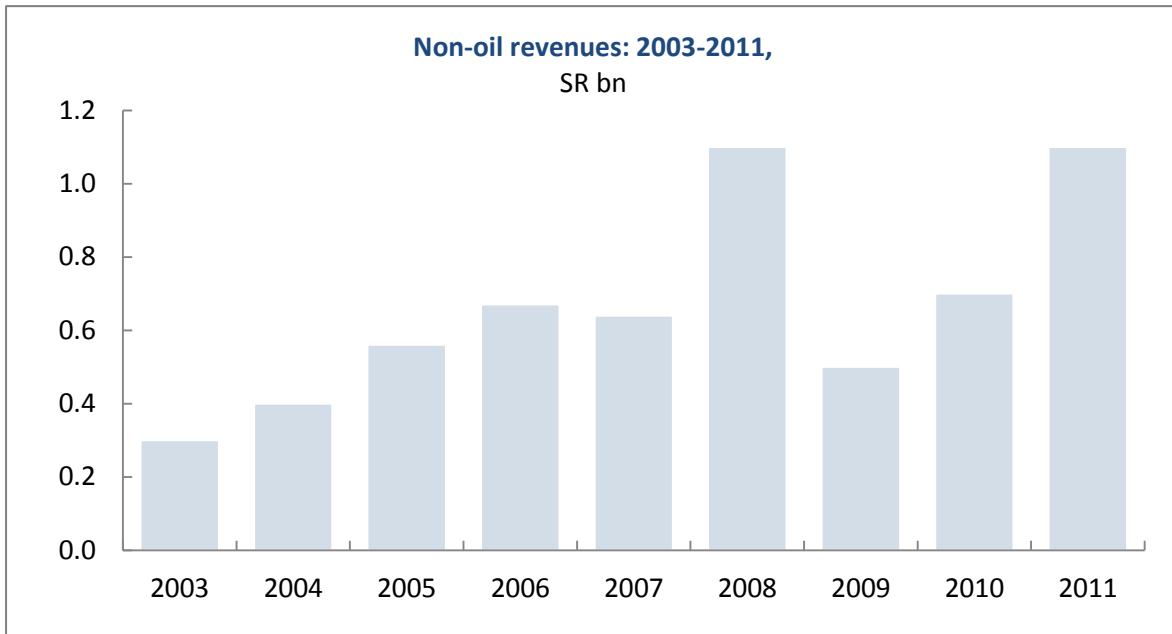
**Exhibit 3**

**Public Revenues: 2003-2011**  
In %



Source: Frost and Sullivan

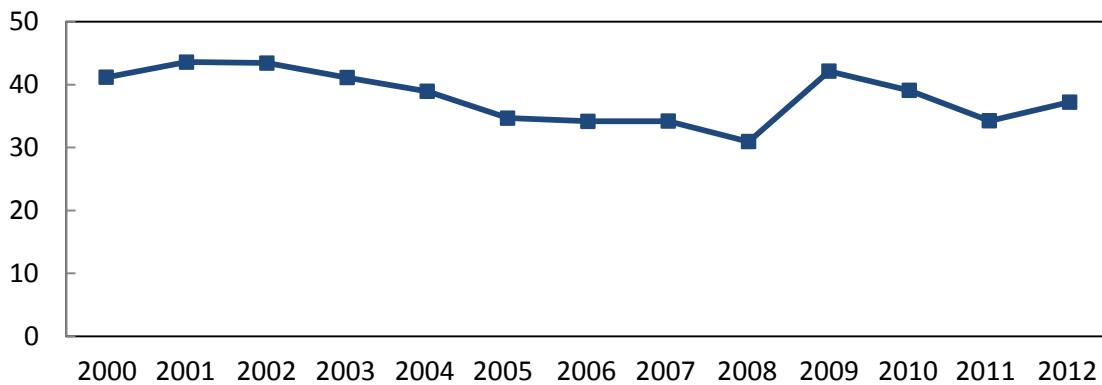
**Exhibit 4**



*Source: Frost and Sullivan*

**Exhibit 5**

**Saudi Arabia Value added in the services sector as % of GDP**



*Source: Frost and Sullivan*

The service sector plays a very important role in the KSA's economy. It contributes 50.6 per cent to real GDP and employs about three quarters of the workforce.

The KSA is helping its service sector by offering access to the market and providing different sorts of aid to the Foreign Service suppliers. The effort can be noticed by the number of service sub-sectors commitments accepted by the KSA during its accession.

- 
- 1) Financial Services: There are 21 banks operating in the KSA currently, compared to only 13 banks in 2005. The banking sector is growing steadily, which is proved by a number of key banking indicators. It is estimated that by the end of May 2011, total assets of the bank reached USD 400 billion up by 6 per cent over 2010-11. In addition to that, bank deposits reached USD 282.7 billion up by 7.6 per cent over 2010-11.
  - 2) Telecom: It was estimated that there were around 4.13 million fixed telephone lines at the end of 2010 out of which about 3 million (72 per cent) were only residential lines. By these, we can assume of a telephone density of 67 per cent or 67 residential lines for every 100 households. Subscription of broadband services has also increased many times, from 64,000 in 2005 to 4.4 million in 2010. Number of people using the internet has increased from a mere 1 million in 2001 to 11.4 million in 2010.
  - 3) Transportation: The KSA has witnessed a huge development in its roads and transportation sector. There were huge improvements in roads which are linking cities. Total length of roads was around 58,036 km.

Healthcare and Social services: The Government of the KSA has heightened its focus on the healthcare sector. The Government invites investment in the large healthcare facility provider institutions to promote technology transfer with an aim to strengthen the quality of healthcare services. By doing so, also aims at generating ample employment opportunities in the healthcare domain in the KSA.

---

## Chapter 6: Retail Services Sector

### The GCC Retail Service

The retail industry in the GCC is booming due to the growing disposable income, increasing expatriate population, rapid urbanisation, and the ever-expanding tourism and hospitality industry. In addition to that, favorable government policy along with continuous investments from the private sector makes the GCC one of the most sought after retail destinations in the world. The two largest economies of the GCC —the KSA and the UAE — are basically responsible for the skyrocketing growth of the retail industry.

The GCC retail sale is estimated to touch USD 270.3 billion by 2016, growing at a CAGR of around 7.7 per cent. It is anticipated that the food retail sales will be growing at a CAGR of 8.8 per cent between 2011 and 2016 while it will be only 6.6 per cent for non-food retail sales. Sales of supermarkets and hypermarkets in the GCC are likely to reach USD 59.0 billion in 2016, growing at an annual average rate of 10.5 per cent between 2011 and 2016.

### The KSA Retail Sector

The KSA is the second largest retail market in the GCC after the UAE with an estimated sale of USD 98 billion in 2011. Factors fuelling the growth of the retail industry in the KSA include an increasing consumer disposable income, an increasing marginal propensity to consume, an increasing growth rate of the GDP, and Government spending. In addition to that, the KSA's favourable demographic attributes make it one of the youngest and fastest expanding consumer groups in the world. Higher revenue generation from the oil sales also helps the industry to expand continuously. Currently, the malls of the KSA are populated with multiple foreign stores from the US coffee house chain Starbucks to the UK department store Debenhams. The KSA retail industry is primarily segregated into two broad heads including:

- Grocery retail
- Non-grocery retail

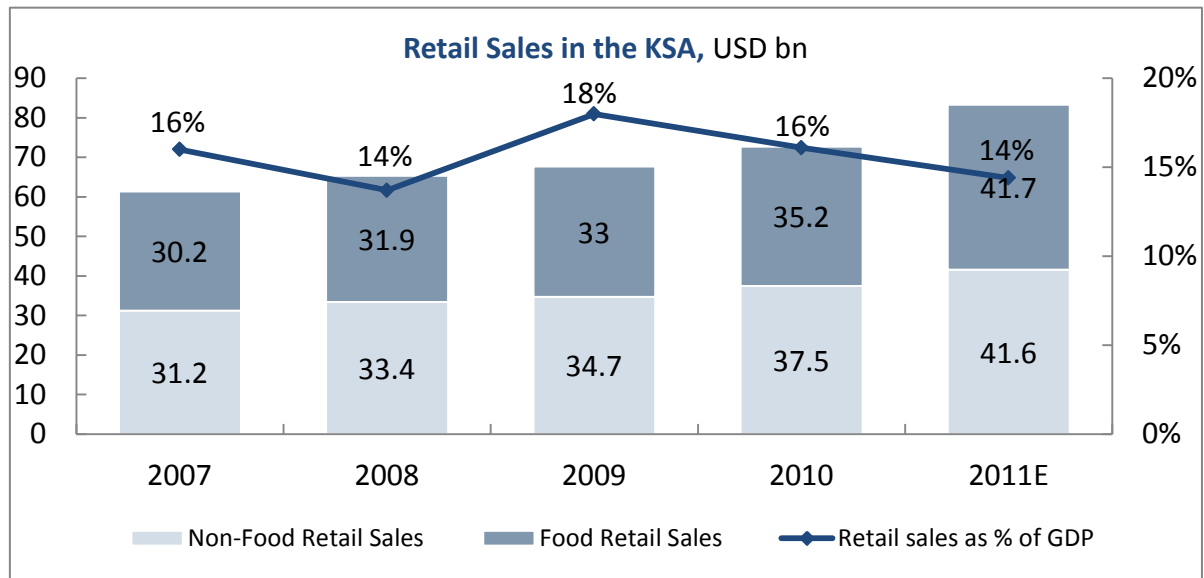
### Retail Industry Segments

The retail industry of the KSA is segregated almost equally between two broad heads, which are non-food and food sales, respectively.

The hot climate of the KSA has helped in the boom of air-conditioned shopping malls instead of high-street retailing. A large young population along with strong female consumer base are driving the market for non-food products including apparel, cosmetics

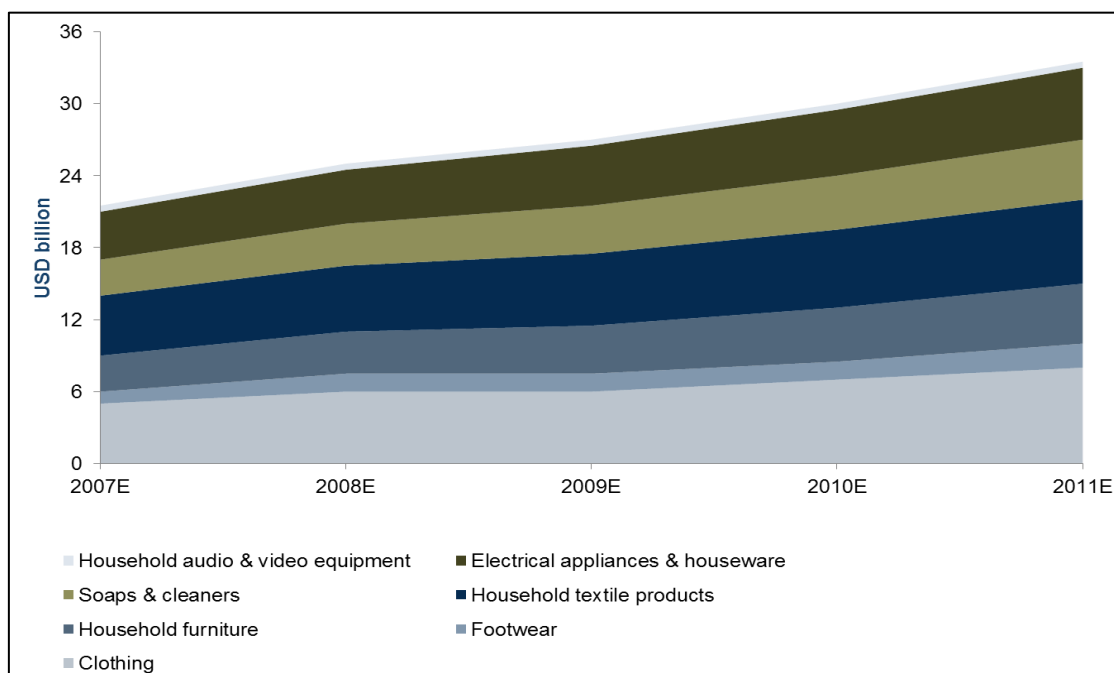
and consumer electronics amongst the highest selling ones. The electronics devices market in the KSA is likely to see a rapid growth owing to restrictions on socialising and public sources of entertainment. Although, the KSA has a large retail industry, the market demand for consumer goods in the country is still around 50 per cent lesser than the UAE retail market. The consumer goods market in the KSA was valued at around USD 31.1 billion in 2011 and is growing continuously for the last couple of years.

**Exhibit 1 Retail Sales in the KSA**



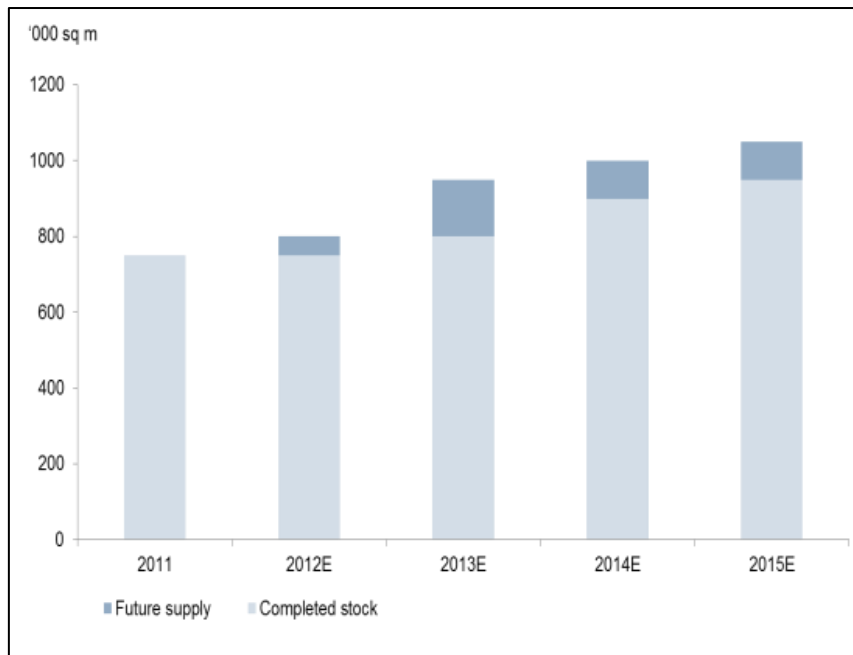
Source: Alpen Capital

**Exhibit 2 Compositions of consumer demand in the KSA**



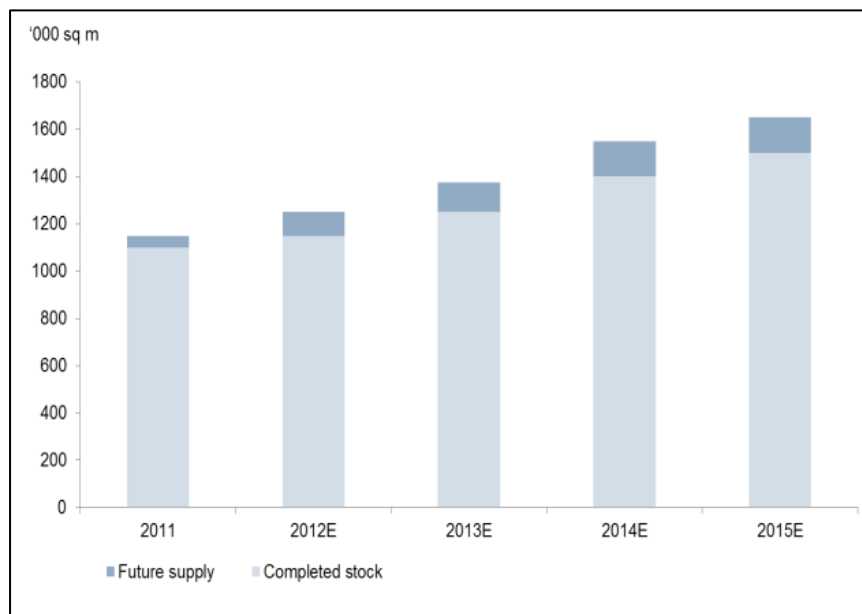
Source: Frost and Sullivan

### Exhibit 3 Riyadh retail forecasts at the end of Q3-2012



Source: Jones Long LaSalle, Al Rajhi Capital

### Exhibit 4 Jeddah retail forecasts at the end of Q3-2012



Source: Jones Long LaSalle, Al Rajhi Capital

### Major features of the Industry

- The retail industry in the KSA is predominantly run by family-owned businesses
- These business houses occupied the exclusive franchising rights from international suppliers and brands to organise retail outlets in malls and shopping centres

- 
- Global retail brands find it beneficial to expand through this route as local businesses tend to have a better understanding of political and regulatory hurdles, and can manage cultural differences and consumer needs efficiently
  - It is estimated that the amount of total Gross Leasable Area (GLA) in the KSA was around 4.4 million sq. m in 2011
  - Riyadh and Jeddah are the two largest cities in the country and house about 60 malls constituting a bulk of the retail sector

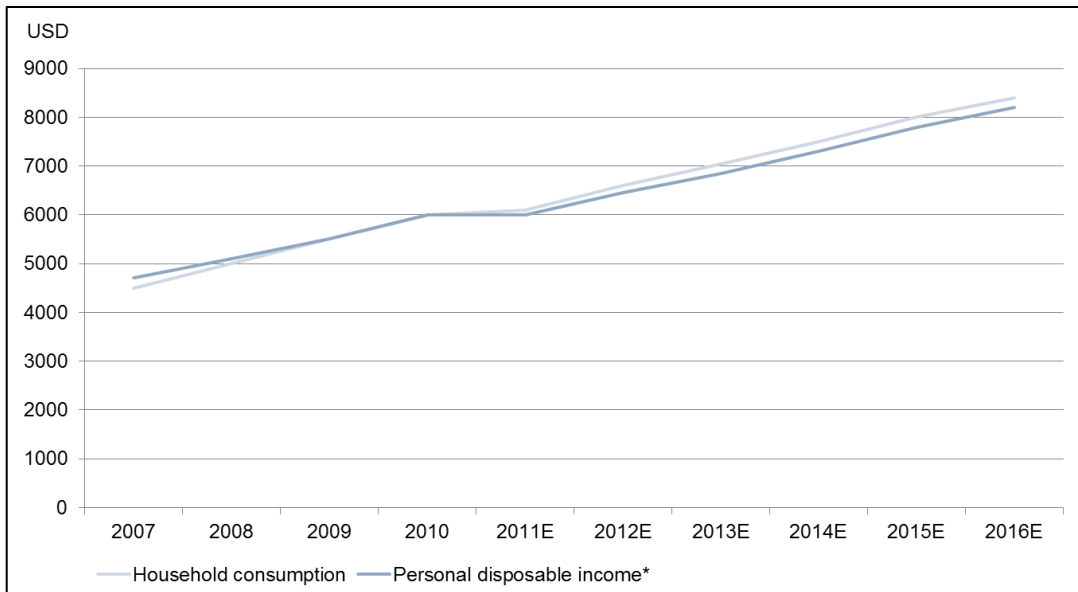
### Market Drivers

Apart from being the world's largest oil exporter, the KSA also invests a lot in its industrial and non-oil areas. The KSA has witnessed a steep GDP growth even during the global financial crisis. Due to this economic growth, a reduction is seen in the unemployment rate in the country and, consequently, increasing average disposable incomes for the people. A healthy standard of living, along with the increasing disposable income, is key to pushing the retailing industry in the KSA.

1. Strong non-grocery growth due to higher consumer incomes: The people of the KSA are more interested in owning and purchasing luxury goods. These demands led to growth in the non-grocery segment.
2. Steadily expanding population base and growing GDP: Continuously increasing population along with rapid urbanisation makes the demographics of the KSA highly attractive for retailers. A significant portion of young inhabitants coupled with the large presence of expatriates also boosts the market's potential. People are spending more on food and non-food items due to an increasing GDP, growing Government spending, reduced fuel prices, and low or no tax scenario.
3. Growth in shopping malls is boosting the retail industry: Rapid construction of shopping malls and other organized retail formats have augmented the growth of the retail market. International brands are also showing interest through the retail channel by establishing franchise partnership with local business houses.

## Exhibit 5

### Increasing disposable income leading to higher consumption



\* EIU estimates from 2009

Source: EIU, CDSI, Al Rajhi Capital

## Market Challenges/Constraints

Currently, the KSA is facing great challenge due to scarcity of human resource owing to high attrition rates amongst the large expatriate workforce. In addition, high rental rates in the top-tier malls in the entire GCC deter the growth of the retail market. Availability of substitute products, expensive e-commerce transactions due to high bank rate, a highly competitive online segment, and high dependence on import for food products are few other challenges, which the retail sector of the KSA is facing at present.

## Key Market Trends

- 1) Mergers and acquisitions: Owing to the tightly knit nature of the KSA's apparel market, mergers and acquisitions have become the attractive route for expansion. A few private conglomerates have control over 90 per cent of the big retail brands through franchise operation.
- 2) Online retail: Although online retail is at a very nascent stage, it is still an upcoming trend in the KSA retail sector. Currently, the trend is only restricted to consumer electronics and home appliances market. Moreover, it is also used in booking air tickets and making hotel reservations. A few mentionable online businesses are United Electronics Company (under the brand Extra), mobile handset retailer Axiom Telecom, and sports and health equipment company U-Mark. However, the legislation, which

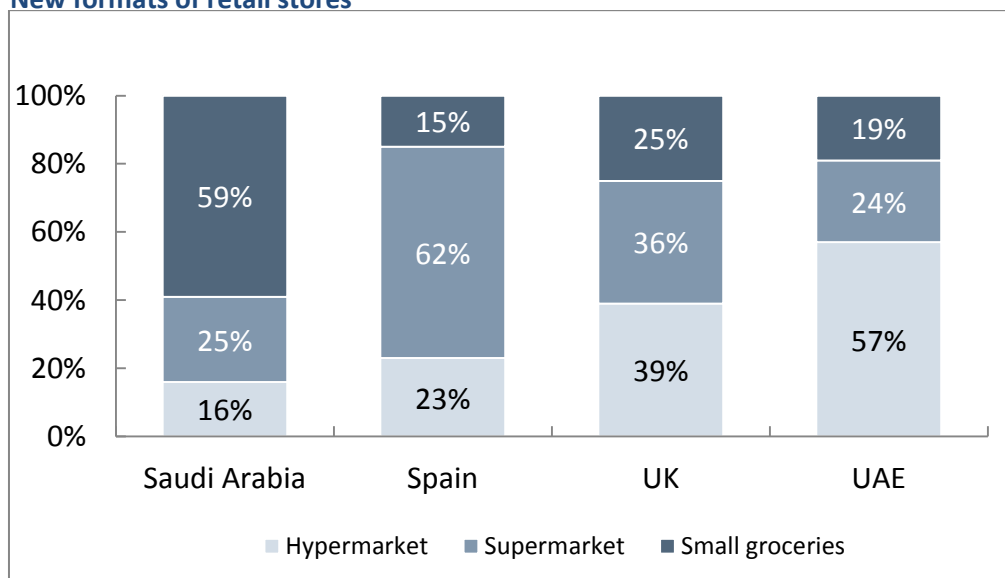


regulates the e-commerce industry, is currently under development. There are various reasons deterring the growth of the online sector in KSA including the following :

- a) Lack of proper infrastructure
  - b) There is no secure payment gateway mechanism
  - c) Lack of multiple payment options
  - d) Limited technical know-how to design e-commerce platforms
  - e) Unavailability of an efficient delivery system
  - f) The PO box system is currently used by the postal system instead of an addresses
  - g) The new Wasel service is currently using geographic information systems (GIS), which covers only 2 per cent of the total KSA population
- 3) Big-Box Format: The Big-Box retail format, that is, a super market or a hyper market, is the upcoming trend in the KSA retail sector. However, small convenience stores, which are also known as “bakalas” in KSA are still dominating the retail market. But, the big box format is gradually getting popularity owing to their cost effectiveness nature. In addition to that, people prefer this format as various products from different brands are easily available under a single roof.

**Exhibit 6**

**New formats of retail stores**



*Source: Al Rajhi Capital*

---

## Major Business categories

There are primarily two business categories in retail sector, which are:

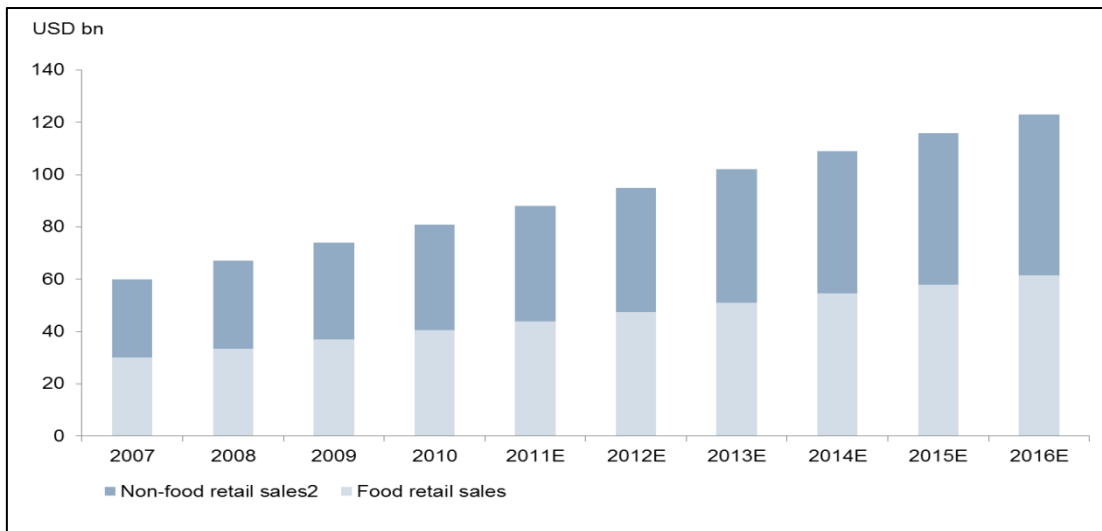
- a) Grocery retail
- b) Non-grocery retail

Grocery retail: Very competitive in nature, this sector consists of various food items.

Non-grocery retail: This segment primarily comprises clothing and footwear, and electronics and appliance. Research estimates suggest that the clothing and footwear segment accounts for worth USD 9 billion in 2011 and is estimated to touch USD 16 billion by 2016. The peak season for the clothing and footwear product sales is during summer breaks and during religious holidays, that is, Eid Al Fitr at the end of Ramadan and Eid Al Adha at the end of Hajj.

**Exhibit 7**

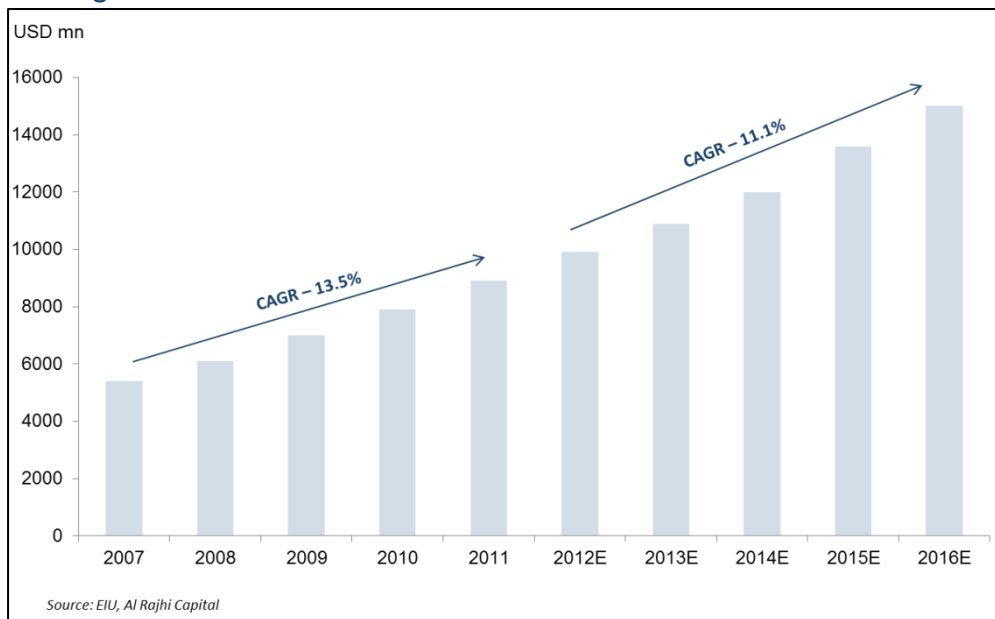
**Composition of Food and non-Food in retail sales**



Source: EIU, Al Rajhi Capital

**Exhibit 8**

**Retail clothing sales trend in the KSA**

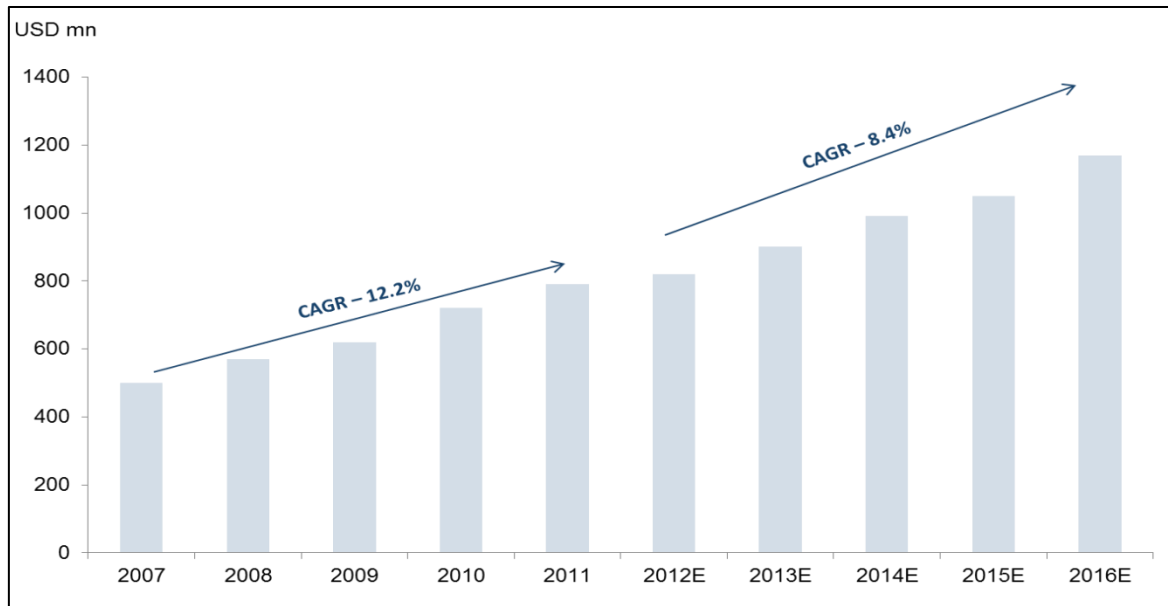


Source: EIU, Al Rajhi Capital

Source: EIU, Al Rajhi Capital

**Exhibit 9**

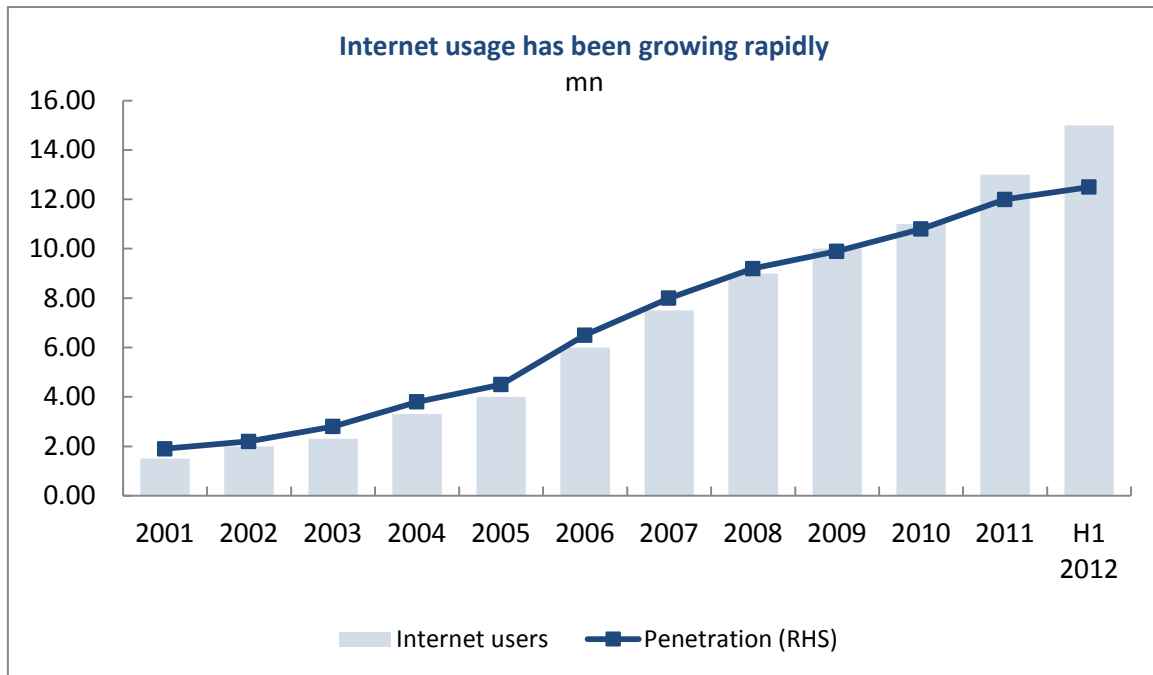
**Retail footwear sales trend in the KSA**



Source: EIU, Al Rajhi Capital

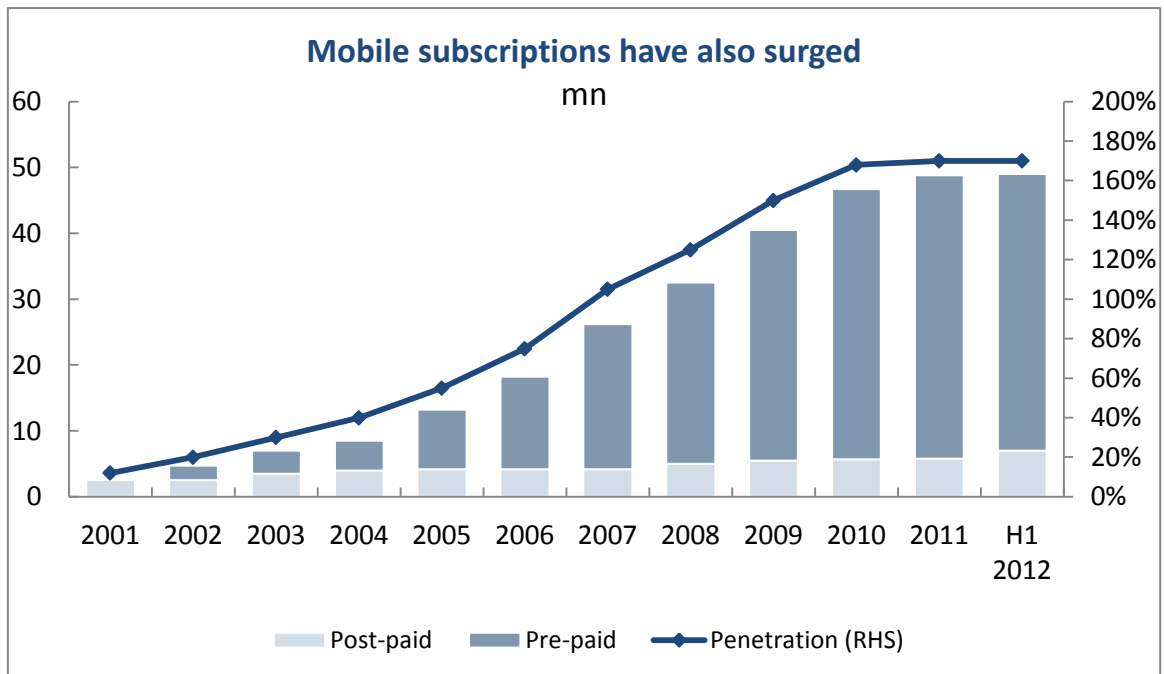
Electronics and Appliances market: The market is growing stupendously due to the skyrocketing demand for smart phones and tablets in the country. In addition to that, absence of any cinemas and concerts in the country is also driving the market. Hence, demand for DVDs, high-definition televisions (LCDs and LEDs), and computers is also growing substantially. KSA's average population age is below 40, young population base is also driving the electronics market of the country. The home appliances market has witnessed a steady growth with total sales estimated at USD 1.8 billion in 2010 and growing at over 10 percent annually from then on. Moreover, growth in the real estate market is also driving the growth for the home appliances market in the KSA. Extra is the largest participant in the electronics and appliances market and had a 9.3 per cent share in 2010 followed by Jarir, Axiom Telecom, Savola, and Al Bandar.

**Exhibit 10**



Source: CITC, Al Rajhi Capital

**Exhibit 11**



Source: CITC, Al Rajhi Capital

---

## Competition

The major retail giants in the KSA are:

**Food:** Carrefour Saudi Arabia or Saudi Hypermarket Company LLC, Panda Supermarket, Domino's Pizza, Starbucks, etc.

**Non-food:** Alhokair Fashion Retail, Landmark Group, Jarir Marketing Company, etc.

**Carrefour Saudi Arabia:** The hypermarkets company "Carrefour" was established in 2004 in the KSA. Carrefour entered the retail market in a partnership with the popular Majid Al Futtaim Group and established the first hypermarket in the KSA. Carrefour has more than 10 branches in the major cities of the country.

**Panda Supermarket-Savola Group:** Panda was the first super market chain in the KSA and was established in 1978. Panda has been merged with Azizia to form Azizia Panda United APU. In the year 1998, the Savola Group has acquired APU and after which it became the retail sector of the Savola group. The company is privately held.

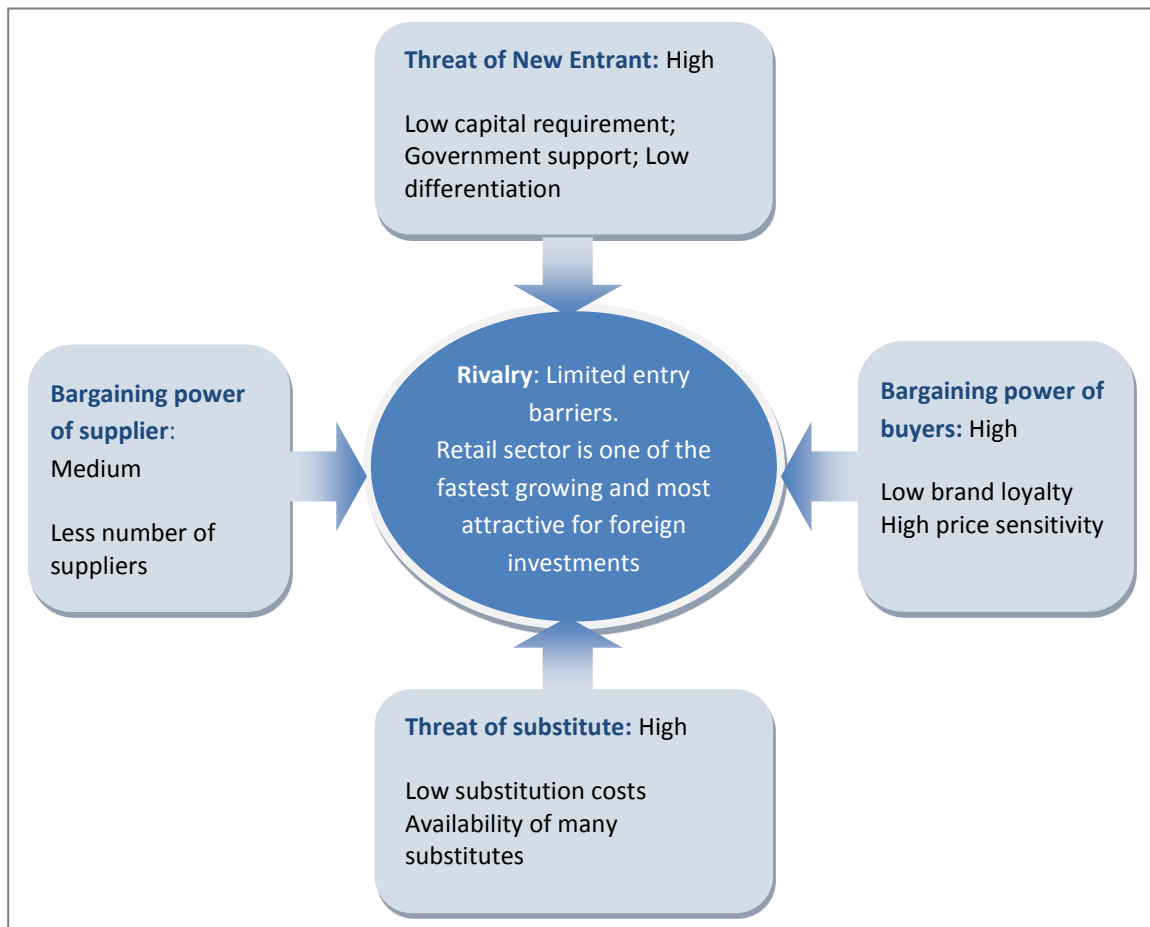
**Fawaz Alhokair Fashion Retail:** The Company was established in 1990 by Fawaz, Salman, and Abdulmajeed Alhokair. It is one of the biggest franchise retailers in the KSA and is the only listed business of its type in the Middle East. The major segments of the company are Fashion Retail, Large Format Retail, Hypermarket, Malls, Real State, and Food and Entertainment.

**Landmark group:** The group was founded in 1973. It has its presence across the Middle East, Africa, and India. Currently, the group has over 1900 outlets covering over 24 million sq. ft. retail space.

**Jarir Marketing Company:** Jarir Marketing is a KSA-based bookshop chain. It is a joint stock company and was established on 1979 as a small book store in Riyadh by the Al-Agil brothers.

## Competitive Analysis – Porter’s Five Forces

Exhibit 12



Source: Frost and Sullivan

### Threat of new entrant: High

- The Government is encouraging private sector investment in the retail sector of the KSA and, hence, make the Government policies very lenient for this sector
- Capital requirement is very low to enter into this market segment
- Product differentiation is also very low in the KSA retail market
- Easy to get bank loan to enter into this market

### Bargaining power of buyers: High

- Consumers can easily switch from one brand to another due to comparatively low switching cost
- The market is highly price sensitive market
- Several brands are operating within a particular price bracket and hence consumers also can get various options to choose from

---

#### Bargaining Power of Suppliers: Medium

- Comparatively low supplier concentration
- Suppliers are usually not showing forward integration threat
- Low cost of switching suppliers

#### Threat of substitute: High

- Ample of substitutes products are available in the market
- Product substitution cost is usually very low
- Market is price elastic

#### Competitive rivalry: Medium to high

- The KSA retail market is growing rapidly owing to favourable Government initiatives, growing young population, and good macroeconomic position of the country
- Exit barrier is not that stringent for the participants of the retail sector
- Increasing domestic demand also makes the market lucrative for investment to domestic as well as foreign participants

#### Barriers to entry for the foreign participants:

- There are limited entry barriers for the foreign participants to enter into the retail sector of the KSA
- Foreign participants need to obtain approval from the SAGIA to enter into the retail sector

### SWOT analysis

#### Strength:

- Increasing young population and a good macroeconomic position are major driving factors behind the retail growth in the country
  - Average per capita income of the country was estimated to be USD 25700 in 2013
- The KSA is home to a large number of expatriate population who are also driving the retail market for in the KSA

#### Weakness:

- Saudi consumers are much more price-conscious compared to their counterparts in the UAE, Kuwait or Qatar
- Private sectors are very much dependent on the expatriate labour force
- High dependence on import for the food manufacturers due to various shortcomings of the agriculture sector of the country



---

#### Opportunity:

- Consumers are becoming brand conscious and, hence, there is ample opportunity for the foreign brand to capture the market share

#### Threat:

- Few popular foreign brands are prohibited in the country due to cultural consideration
- Poverty levels of the country is high compare to the developed countries of the World

## Conclusions and Recommendations

### Attractiveness of the Retail Sector for Foreign Companies

The KSA is the second largest retail market in the GCC after the UAE with an estimated sales of USD 98 billion in 2011. Factors fuelling the growth of the retail industry in the KSA include increasing consumer disposable income as well as increasing marginal propensity to consume, increasing growth rate of GDP and government spending. In addition to that, the KSA's favourable demographic attributes make it one of the youngest and fastest expanding consumer groups in the world. Higher revenue generation from the oil sales also helps the industry to expand continuously. The retail sector of the KSA is thus believed to be a high potential market for domestic as well as for the foreign participants. The reasons being:

- Young population of the country is steadily increasing. According to CIA, currently approximate population distribution of male and female is 2,832,538 and 2,458,339 respectively in KSA.
- The KSA ranked 16th in global retail market
- The per capita income of the country is also very high : USD 31,300 (2013)
- Despite a high per capita income, per capita consumption of retail goods is comparatively low in the country compared to other countries in the GCC region. Hence, there is a large untapped potential market available in the country.
- In addition to that, more than 12 million tourists visit the sacred Makkah and Madinah every year, also driving the retail market of the country.

### Attractiveness for Japanese Companies

Japanese retailers have been looking beyond China for their international operations. Hitherto China has remained the dominant foreign market for Japanese retailers and they are slowly moving out of this dependency by expanding operations to the US, Canada, other Asian countries and more recently to the Middle East. Daiso (100 Yen shop) and Yellow Hat (automotive supply chain) are two of Japanese retailers who have set shop in the KSA. Besides these, other retailers such as Muji (Mujirushi Ryohin) through its partner MH Alshaya Co. and 7-Eleven have started operations in the UAE as a first step for their Middle East foray.

---

Japanese retailers like Muji and Uniqlo, who have built unique business models of non-brand high-quality products, are sure to find immense acceptance amongst consumers in the KSA who are also very sensitive for high quality competitively priced products. Besides Japanese retailers have an added cost advantage over their Western competition given the lesser logistics and import costs. In addition, with most of the Japanese retailers intending to enter Dubai, expanding from there to the KSA would be easier.

If the Japanese retailers establish their Middle East headquarters in Dubai through a local partner (in which case they get the registration of a local company), then importing from Dubai to any location in the KSA is duty free. Retailers can enjoy this added benefit by setting up their major warehouse in Dubai and from there catering to the other markets in the GCC including the KSA.

### **Conclusions on Preferred Business Model**

If any foreign company wanted to enter into the retail market of the KSA, then he has to obtain a good knowledge about the country in terms of cultural consideration of the country, economic background of the country including per capita GDP, net trade balance, government initiatives related to the particular sector, banking sector structure, loan availability, etc. If the company wanted to tie up with some Saudi nationals or Saudi companies then he has to investigate thoroughly regarding the company or the person.

The most popular business model to enter into the KSA retail sector for foreign companies is **franchisee business model**.

Franchising business model has emerged as one of the fastest growing categories in the KSA's retail business sectors. A growing economy along with an increasing young population is driving the market for franchising in the KSA. The country does not follow any strict guidelines for the franchise business operation. Commercial company law is used as a baseline for the franchise business model. Currently, the Government of the KSA has allowed wholesale and retail trade in the country and has allowed foreign partners to possess 75 per cent ownership in a joint venture partnership model. A foreign franchisor has to ensure that the brand or the concept must belong to the original franchisor and not adopted from any third-country sub franchise.

---

Registration time:

To register as a franchise may take time four to six months.

Ownership structure:

Most of the franchise operations are owned by a few selected business families in the KSA who have the business structure and resource to manage the operation.

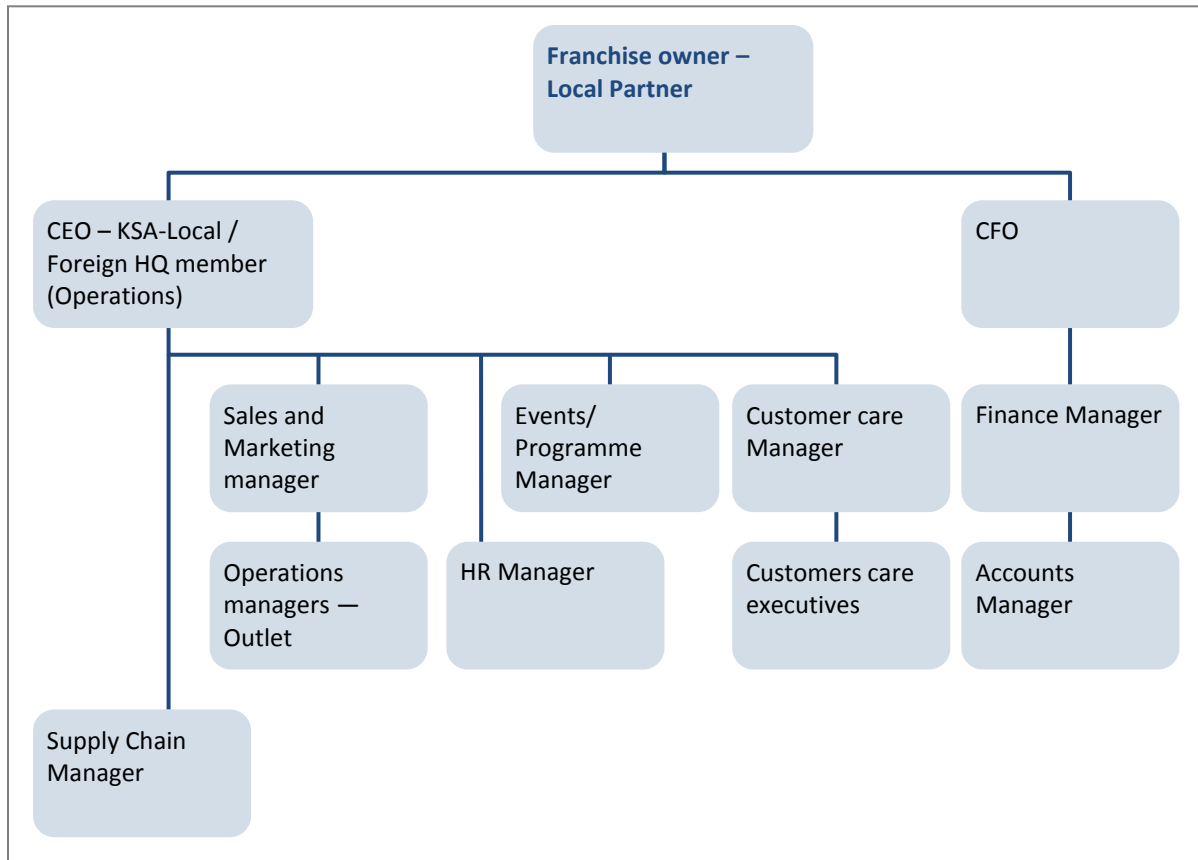
Generally, franchisee business model is the most popular business model amongst foreign investors to enter into the KSA retail market. So after having a tie-up with a local Saudi partner (who should have in-depth knowledge about the local market type and cultural consideration) they can first start one branch in any of the below mentioned locations. After that, they should concentrate to create brand awareness among local Saudi people. Once they attain popularity, they can think to open two to three new branches depending upon the brand equity.

### **Recommendations on Locations**

Jeddah, Riyadh, Eastern Province, and Al Khobar are the four major business regions of the KSA. Majority of the big shopping malls are located in these regions of the country. Hence, it can be suggested that Japanese retailers can select any one of the locations (after doing through market survey) to open their first branch. Also, the pilgrimage destinations of Mecca and Medina receive millions of tourists annually and are equally prominent locations for new retailers to set stores.

## Recommended Organisation Structure

Exhibit 13



Source: Frost and Sullivan

## Recommendations on Marketing and Advertising Modes

Both digital media and social media advertising are popular in the region (the top channels include Eysh Elly, Sa7i, Al-Timsah, and La-Yikthar). It is advisable to have Facebook, LinkedIn and Twitter accounts. Almost all the giant companies have their LinkedIn and Facebook pages. The number of Facebook users in the KSA was six million in 2012; this number reached 7.8 million in 2013, with five million of them accessing their accounts from cellphones. The number of Twitter users hit 5 million in 2013 from 3 million in 2012, with an annual growth of 45 percent. They can opt for many promotional strategies like events, contests, etc. to build the brand awareness amongst the KSA nationals.

---

## Chapter 7: Beauty and Hair dressing Services Sector

### Overview

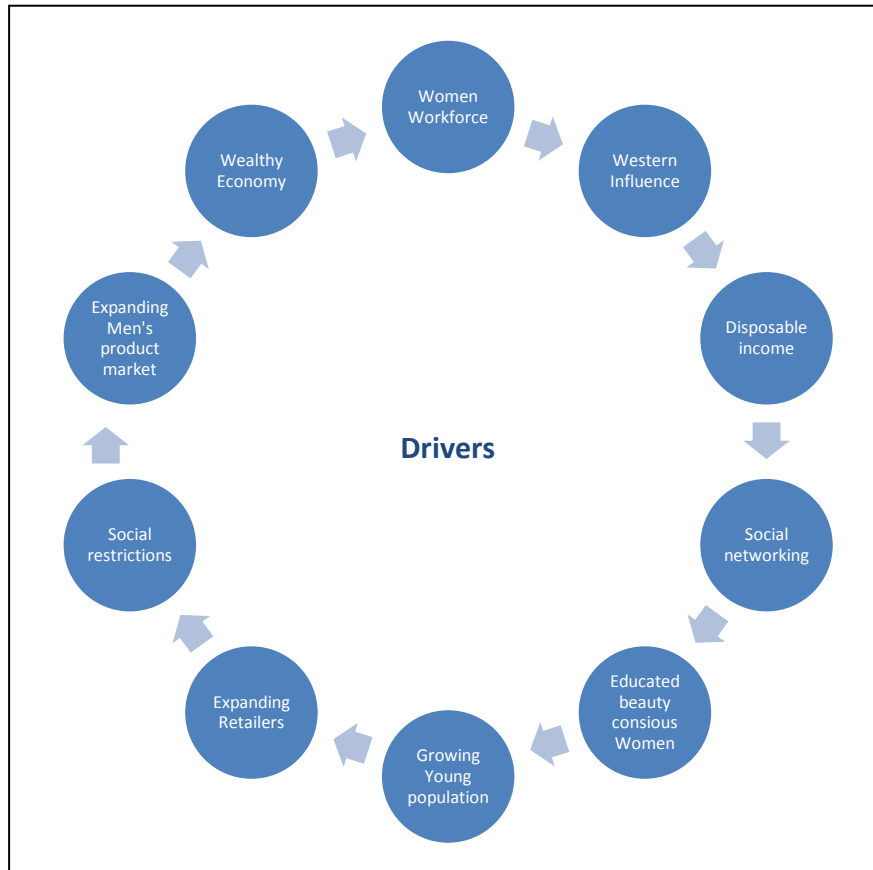
The KSA beauty and hair dressing industry has witnessed a tremendous growth in recent years. In 2012, the beauty and hair dressing industry in the region had generated revenue of around USD 0.3 billion. The KSA is viewed as a potential beauty business destination by International companies. Unlike the UAE, the salon and spa market here is in a nascent stage. However, the market has expanded drastically in the last few years. The KSA also boasts as one of the largest hair and beauty salon markets in the entire GCC as Saudi women are extremely conscious about their appearance. Beauty salons with latest technology, cosmetics, and sophisticated treatments are mushrooming across the region.

### Trends

- Around 50 per cent of the salon's revenue comes from hair-colouring, which is considered a quick makeover technique. Lately, hyper-highlights have replaced the all-over colour.
- Recently, men have also started showing interest in specialised beauty and personal care salons, a marketing tactic of international brands to promote the well-groomed and fashionable appearance as a sign of success, than non-Islamic vanity.
- The salon business in the region peaks during festive and marriage seasons and during vacations and the beginning of the academic year. In 2013, profit made by beauty salons across the KSA during Eid was over USD 133.3 million.
- Treatments that are most sought after are blow dry (hair setting), facials, body hair removal, hair colouring, and body care. The most popular treatment in body care is 'Moroccan Bath', which is a head to toe beauty therapy.
- Professional salons in the KSA offer facilities like gym, café, spa, etc. to their clients. Due to lack of entertainment activities in the region, salon is a place where women meet and socialise with their friends. Salons in the KSA have emerged as the preferred destination for females of all age group.

## Growth Drivers

Exhibit 1



Source: Frost and Sullivan

- ✓ It has been observed that an increase in the number of women entering the workforce and their relentless surge to follow western lifestyles, increasing young population (50 per cent of population is under 25 years old) and growing GDP, which is forecast to reach USD 30,000 by 2020, are driving the beauty and hair dressing market in the KSA.
- ✓ The KSA professional hair care market is outperforming with an impressive two-digit annual growth rate.
- ✓ Saudi women's exposure to the Internet, media, and western beauty trends are making them more demanding as consumers.
- ✓ Another factor riding the growth of the industry is the number of girls pursuing college education. As per reports, university students and graduates account for the largest salon customer segment followed by working women.
- ✓ A strict dress code coupled with appeal towards makeovers is also favouring salon business in the region. Majority of women in the region prefer professional salon treatments as they provide them with an opportunity to socialise with friends. However, since they are not allowed to drive or travel alone, many freelance hairdressers and casual stylists fill the niche market.

---

## Restraints

- Non uniform regulatory environment across the provinces hinders business prospects and potential investors
- The salon business in the KSA is highly segmented with around 5000 registered and large number of small and unregistered salons.
- The industry is highly competitive and the customers are more demanding in terms of quality, standards, and products than any other region.
- The customers are extremely selective in terms of brands. As per stylists, only few clients are open to try other brands.
- Majority of staffs in the salons are expatriate women who are under the sponsorship of their husbands or fathers; however, as per law in the KSA, a person needs to have an employment visa in order to work in the country, which leads to crunch of expert therapists/stylists.
- Furthermore, due to lack of professional beauty training institutes in the country, there are very less professional therapists/stylists in the region.

## Challenges

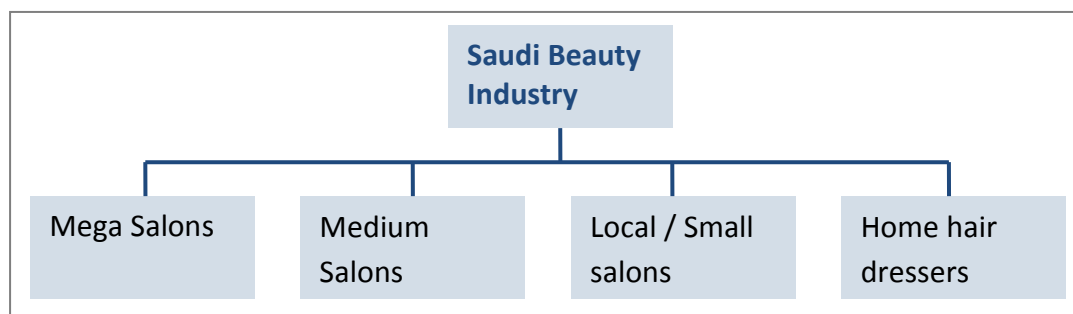
Though the beauty and hair dressing market in the KSA is booming, unlike other countries, there are many challenges due to religious barriers. As there is strict ban on displaying the images of women, operators find it hard to advertise testimonials of clients to promote their services.

Saudization (Nitaqat) is another key challenge the industry is facing. Working in a salon is considered an undignified job due to which most of the positions remain vacant and the operators are forced to discontinue their services due to lack of employees.

Also as per Saudi law, beauty services are against Islamic Shariah laws, which also restrict the growth of industry in the country.

## Major Business Categories

Exhibit 2



Source: Frost and Sullivan

---

The salon industry in the KSA operates majorly in four segments: mega salons, medium, small, and home hairdresser. Women prefer local salons as they are easily approachable. However, the young students, who are open to try new brands, are riding the international beauty salon market in the region. Unlike other regions, the KSA beauty services are segregated on strict gender lines. Services for women and men are offered in separate facilities by respective gender staff. Marketing is done through client referrals, word of mouth, and social networking sites.

### **Entry Regulation for Foreign countries**

The KSA law advises that any business by international brands requires a local partner who holds the majority stake. The local partner, be it a company or an individual, need not contribute/participate financially at all. However, with the new developments in jurisdiction, a foreign company can have a 100 percent subsidiary provided they need to make a minimum investment of USD 0.1.

In order to promote and support skilled Saudi women (Saudisation), the Government is now trying to replace foreign workers with Saudis by restricting the number of foreign beauticians.

According to 2014 regulations, only Saudi women will be granted licences to run beauty businesses. The municipality will issue the licence after consulting with the Commission for the Promotion of Virtue and Prevention of Vice (Haia) and the Civil Defence.

As per Government rules, activities of beauty parlours will be restricted to women's beautification and the practices will be aligned with the Islamic Shariah and legal rules and regulations and should not work beyond 11 PM.



---

## Permits and licences for entry

The rules and regulations governing running beauty parlours and clinics vary across various provinces of the KSA. Any new beauty centre or salon needs to pay licence and work permit fees to as many as 14 Government agencies in the KSA. The fees are also quite exorbitant. The licence fee for a simple beauty centre costs as much as USD 80,000.

### Jeddah:

Jeddah in 2014 passed a new regulation that permitted only Saudi women to be granted licences to run beauty businesses. Female beauty salons should obtain a licence from the municipality in co-ordination with the Members of the Commission for the Promotion of Virtue and Prevention of Vice (Haia) and the Civil Defence. Licence will be provided to women above 25 years of age. However, diploma holders in beauty courses from technical colleges would get exemption from the age criterion.

The licensed woman will have to manage the shop by herself/ appoint a full-time Saudi director. Also, applicants need to produce the medical certificate confirming that they are free from infectious diseases. They should also submit a letter showing that they would follow the dressing code as per government guidelines inside the salon. The services offered have to be strictly restricted to what is permitted under Shariah law.

### Riyadh:

On the other hand, in early 2015, the Ministry of Interior has issued a ban on women running spas, women sports facilities, and beauty centres. After obtaining the mandatory licences from the municipality, the Ministry of Health and the General Presidency Of Youth Welfare, many businesswomen have been forced to shut operations.

## Competition (Major salons in major cities)

Jeddah	Riyadh	Dammam/Dhahran
Ahlam Beauty Lounge	Mariyah Centre	Mohamed Halal Group(Dammam)
Manna Centre	Yibreen	Lamlicious Cafe and Lam Ladies Center (Dhahran)
Samarah	Luthan Spa	Top Elegance(Dhahran)
Eric Zemmour	German Beauty Centre	
Estilo	ESPA	Jolie Dam(Dhahran)
Skin Deep	VOG International Hair Salon	Princess Palace Beauty Centre(Dhahran)

Lailatik centre	You and Me	Lagoona (Dhahran)
Toni and Guy	Al Manihil centre	Golden Clip(Dhahran)
Official: Fashion Lounge	Hot Stone Salon and Spa	Suhad(Dhahran)
Lamasat Beauty Centre	Maison De Joella	Allure(Dhahran)
Lash		
Lucine Salon and Spa		
Nova Alolo		
Nawara House		
Royal Salon		
Claude Maxime Mondial		
Jean Louis David		
Jacques Dessange Salon		

Source: Frost and Sullivan

There are very limited international participants in the KSA beauty industry. Toni & Guy, Eric Zemmour, Maison De Joella, Claude Maxime Mondial, Jean Louis David, Jacques Dessange Salon, etc. started functioning in the country recently. Otherwise the industry is flooded with local participants. Jeddah, Riyadh, and Dammam are considered the region's beauty hubs. Operators' fears of experiment with new techniques and the lack of awareness towards modern beauty therapies are stopping people to experiment with the international entrants.

## Competition Assessment

Exhibit 4

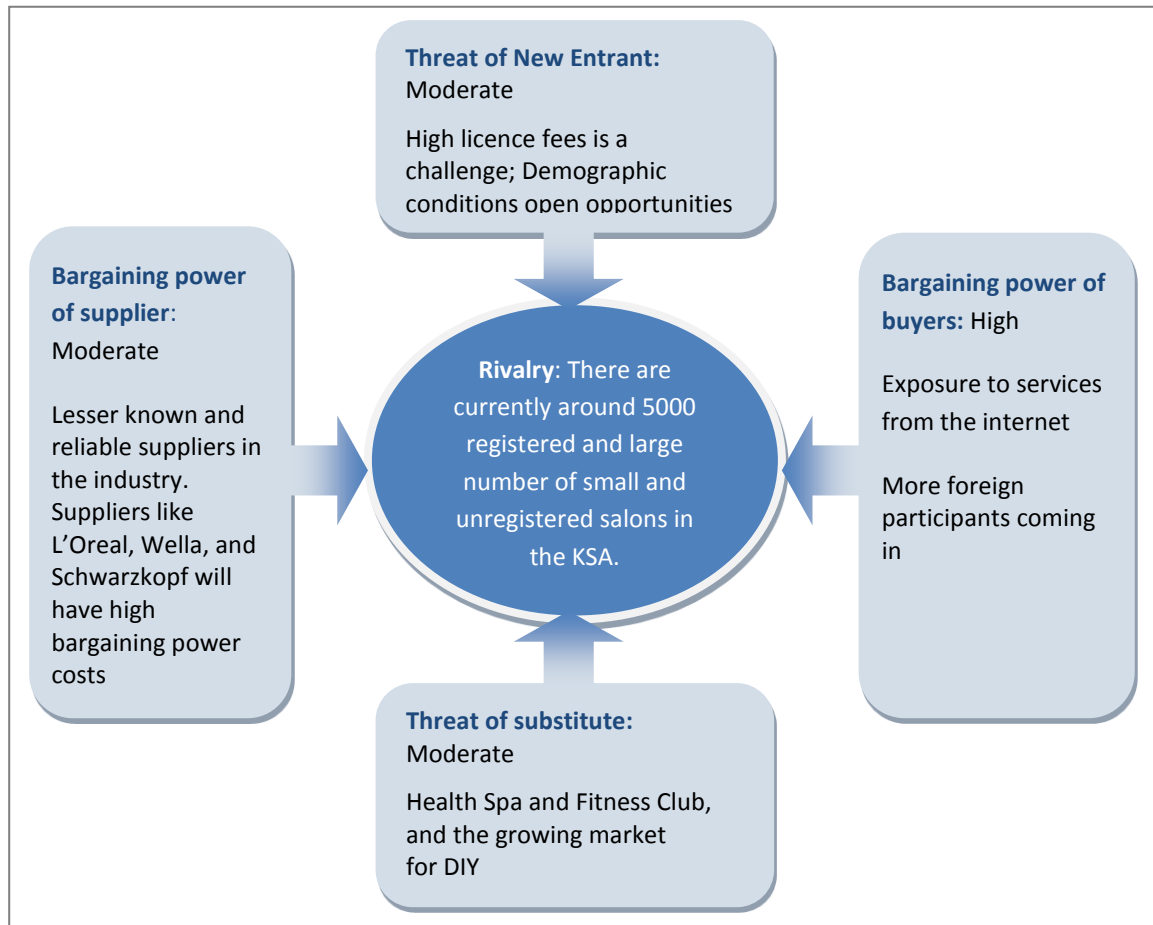
Company	Year of Entry	Business Model	Presence in KSA – one location/multiple locations, etc.	Local HQ in the KSA or Dubai	CEO – Local or from Foreign HQ	How do they advertise locally in the KSA
Mariyah Centre		Local Enterprise	One location	The KSA	Localite	Word of mouth/print media
Mannah Centre	2002	Local Enterprise	One location	The KSA	Localite	Word of mouth/print media/Social media
Yibreen	2011	Local Enterprise	One location	The KSA	Localite	Word of mouth/print media/Social media
Toni & Guy		100% subsidiary	One location	The KSA	Foreign HQ	Word of mouth/print media/Social Media
Claude Maxime Mondial		100% subsidiary	One location	The KSA	Foreign HQ	Word of mouth/print media/Social Media

Jean Louis David	Franchisee	One location	The KSA	Foreign HQ	Word of mouth/print media/Social Media
------------------	------------	--------------	---------	------------	--

Source: Frost and Sullivan

## Barriers to entry

Exhibit 5



Source: Frost and Sullivan

### Threat of new entrants:

The beauty industry in the KSA is crowded with established local participants. They are economical and the locals are familiar with the kind of treatments they offer. The numerous licence procedures and high work fees are deterrents for new entrants. However, increasing disposable incomes and exposure of consumers is creating demand for more number of centres to come up. In addition, foreign participants have only recently started penetrating the market.

Marketing, branding, and labour crunch are the key challenges the new entrants need to foresee. Majority of Saudi women are not familiar with international brands and the

---

treatments offered by them. So creating awareness amongst the people regarding the new technologies used in beauty treatments is very important. Effective online/social networking marketing tactics need to be deployed, as the country does not encourage streaming advertisements displaying women's beauty.

**Bargaining power of suppliers:** There are very limited branded and renowned suppliers in the market. This will increase the bargaining power of suppliers like L'Oreal, Wella, etc.

**Rivalry:** There are currently around 5000 registered and a large number of small and unregistered salons that can be a threat to new entrants. The limited number of established global brands makes it a high potential destination for foreign brands if they can bring the right kind of services at acceptable price to meet the demands of quality and price-sensitive the KSA consumers.

**Bargaining power of buyers:** Consumers are well informed, thanks to exposure to the Internet and travel overseas. Their expectations from beauty and hair dressing services are constantly evolving.

**Threat of substitute:** Health Spa, Fitness Club, cosmetics, and the growing market for do-it-yourself (DIY) can pose threat to the industry. Recently, some hospitals in the KSA have also started providing facilities like medical spa, beauty treatments etc. The cosmetic clinic sector in the region has expanded 10-fold in five years.

The country's affluent women spend USD 3801.6 a year on cosmetics on an average. The KSA cosmetics industry is the largest in the Middle East. Every year it generates a revenue over SR60 billion. In 2009, women in the country spent almost SR9billion (USD 2.4billion) on cosmetics, which is highest in the world. The KSA also ranks first amongst the countries in the GCC in consumption of hair care and skin products. Beauty and wellness products and the services market in the KSA was worth more than USD 2billion in 2011. The skincare market of the country is likely to touch USD 502.9 million by 2015.

## Recommendations and Conclusions

### Attractiveness of the Hair and Beauty Dressing Services Segment

The beauty and hair dressing industry in the KSA had generated revenue of around SR5 billion in 2012. The KSA is viewed as a potential beauty business destination by international companies. In order to promote the segment, Government has included beauty salons segment in the ministry's third phase for creating job opportunities for women in the private sector. However, the KSA's professional beauty salon market is still at a nascent stage. The market has expanded drastically in the last few years, albeit gradually.

---

Consumer spending is majorly due to the strong performance of the country's economy and disposable income, which is the largest in the ME.

### **Need for Japanese Companies**

Recently, few international beauty salons started operating in the KSA. Even though the awareness is less amongst people about these centres, with an increasing number of educated women in the country, the industry is likely to flourish within a short span.

Japanese beauty treatments are considered safe with limited usage of chemicals. Authentic Japanese beauty treatments use natural ingredients to give a long-lasting effect. The treatment methods are similar to the local beauty treatments, which may encourage customers to experiment it. The Japanese beauty care industry is known for customized treatments. The Japanese age reversal skincare and spa treatments are popular all across the world and the maintenance is remarkably different from other regions. Their skincare regimen uses a variety of natural herbs and very less chemicals. Many of the naturally occurring herbs in Japan are used in salons that help fight off the negative effects caused by weather conditions and pollutants.

The Japanese believe that beauty starts with food. Majority of the Japanese salons provide complimentary diet consultation as per the individual skin type. Traditional Saudi skincare treatment also uses a variety of herbs and natural products. Recently, focus has shifted from the authentic ways owing to the busy lifestyle and influence of western products and treatments, which uses chemicals for quick results.

Saudi women are likely to adopt the Japanese salons as that would give them an opportunity to revive the authentic Arab beauty treatments.

### **Preferred Entry Model**

Some of the international salons operate as 100 percent subsidiaries while some as franchisees. Renowned salons like Toni & Guy operate as a 100 percent subsidiary while the lesser known brands like Claude Maxime Mondial follow the franchisee model. The franchisee model is a safe way to get introduced in the KSA salon market as the branding part would be managed by the local investor. Frost & Sullivan believes it is better to collaborate with a known local beauty centre as that will build up the confidence level amongst the locals.

---

## Recommendations on Location and Branches

Dammam would be an ideal location. It is a sophisticated and self-contained city with malls, residential areas, and colleges. Currently, there are not many sophisticated salons in this region.

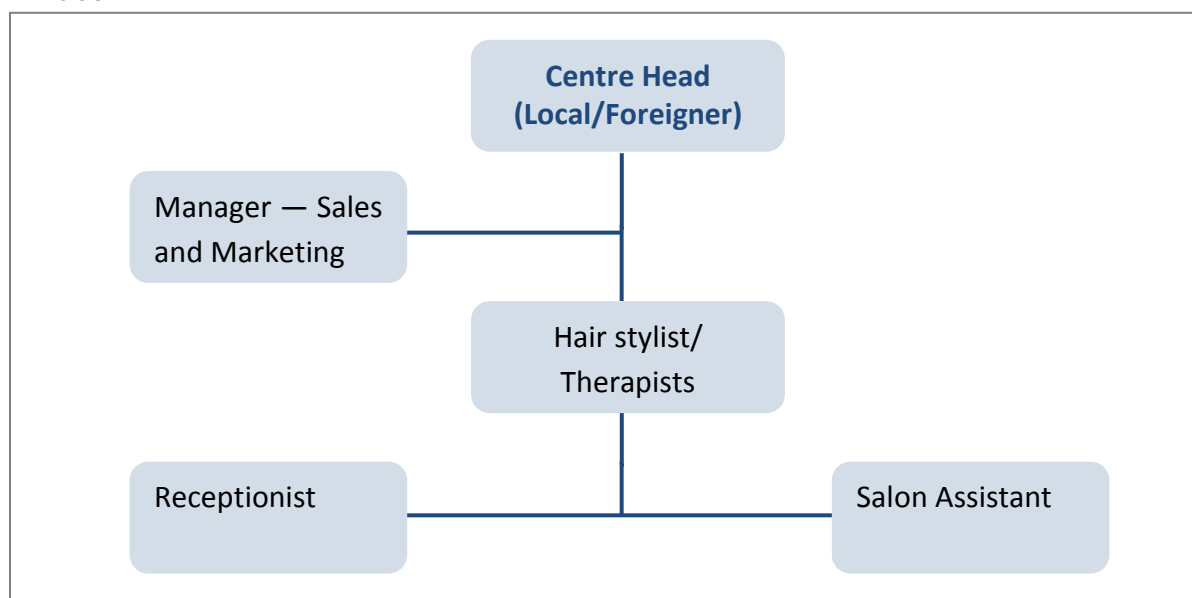
Jeddah and Riyadh already have some renowned French and American salons and numerous local ones. If proposed to set up in Jeddah/Riyadh, majority of the revenue would be spent in branding and advertising.

It would be advisable to start with one branch. Post the breaking even of the first branch, further expansion could be planned. Alternatively, opening two branches one in Dammam and one in Riyadh would also be a wise decision as the initial high costs in Riyadh could be offset from early profits from Dammam.

Approximately, it would take three to four years to generate the ROI. First two years would be spent in establishing the brand, hiring, and setting up the operation. From third year onwards, after winning the client's confidence, the business could start generating profits.

## Recommendations on Organization Structure

Exhibit 6



Source: Frost and Sullivan

We have observed that for both subsidiary and franchisee there will be a local centre head who would oversee the entire gamut of operation including sales and marketing. In some centres, sales and marketing is a separate function under the local /foreign head. Separate specialists for hair/skin treatments report directly into the Operations Head/Centre Head.

---

## Recommendations on Marketing and Advertising Modes

Social networking sites, peer referrals, word-of-mouth, and client recommendations are some of the most successful modes for advertising and marketing services as observed from existing competition in the KSA.

## Pre-entry Procedures

Frost & Sullivan opines that there is a need for detailed consumer research for ascertaining the preferences and requirements of consumers, which will help in identifying the specific kind of services required under the wider gamut of and beauty services and then setting up units that cater to these specific services in select cities.

The detailed consumer research should aim at covering the following objectives / information areas:

- Preferred type of treatment (chemical/natural/cosmetic surgeries)
- Location of salon (inside malls/independent location)
- How much money they are willing to shell out for various treatments.
- Why do they prefer a particular treatment (local/international)
- For which treatment would they spend more(hair/skin)
- Ambience of the salon (lighting/music/seating arrangements/interiors, etc.)
- Comfort level with the therapist (friendly /professional)
- Is there preference for bundled/complimentary services

## Example of a Successful Foreign Company in the KSA

Toni & Guy started operation in 2011 in the KSA. It started as a 100 percent subsidiary of the parent company. Currently, they have only one outlet in Jeddah.

Branding and social media have played a major role in the success of the salon in the KSA.

Tony & Guy is a renowned brand and Western Western-educated citizens are familiar with the brand. They have a dedicated Facebook page and Twitter account through which they advertise about the promotions and upcoming events. They encourage their customers to stay connected with them through Facebook.



---

## Chapter 8: Food Service Sector

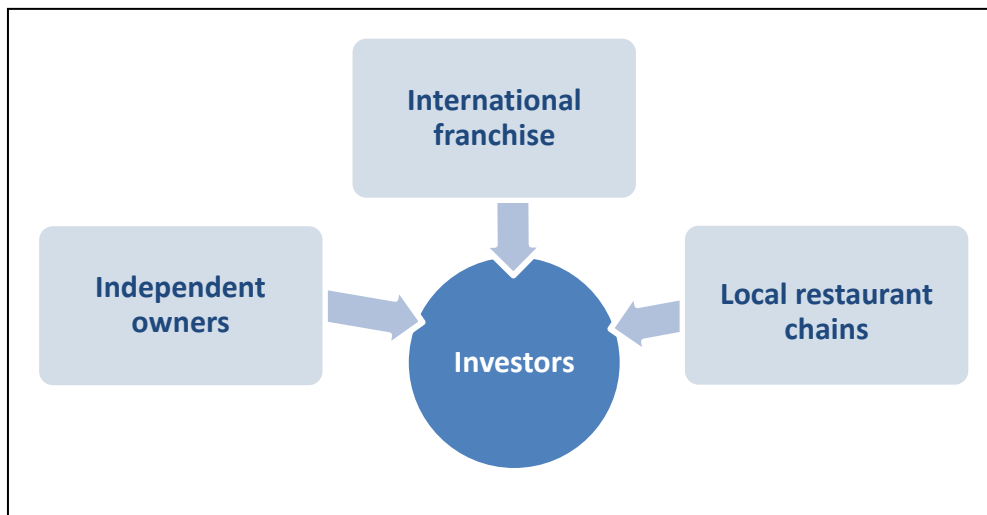
### Overview

The KSA is emerging as a major food servicing market in the GCC. In 2012, the industry generated revenues worth USD 7.7 billion and was one of the industries in the region which was performing extremely well during 2007-2009 recession. The market is highly fragmented with over 65,000 outlets. Growths in tourism, increasing annual disposable income, and changing demographics have contributed to the growth of the foodservice industry in the region.

### Investment models

Three types of investors operate the restaurant segment of the KSA: Independent owners, International franchise, and local restaurant chains.

Exhibit 1

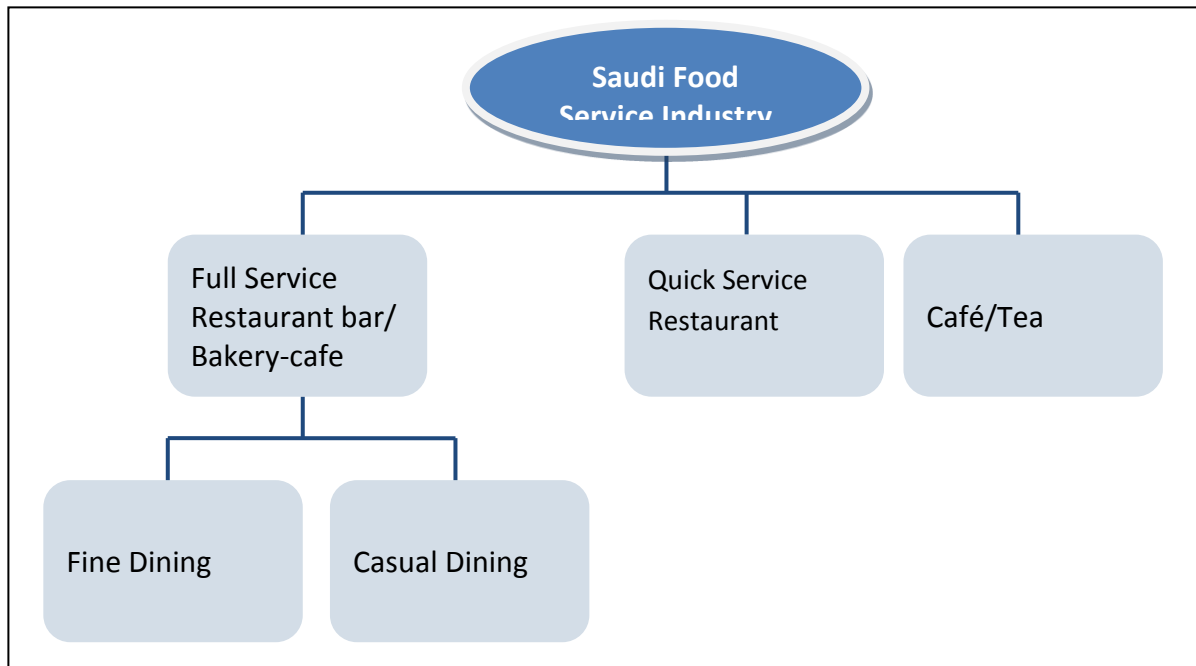


Source: Frost and Sullivan

Most of the International food chains in the KSA follow the franchise model even though they can even run their 100 percent Limited Liability Company under certain conditions. Fast food franchises account for more than 60 per cent of the total franchise market, with American brands constituting 70 per cent of all the franchised operations in the KSA.

Franchise is the most convenient and hassle-free mode of doing business in the KSA. In the franchisee model, raw material supply, logistics, and warehousing are completely taken care of by the local partner. Moreover, this model has proved to be successful in the region.

Exhibit 2



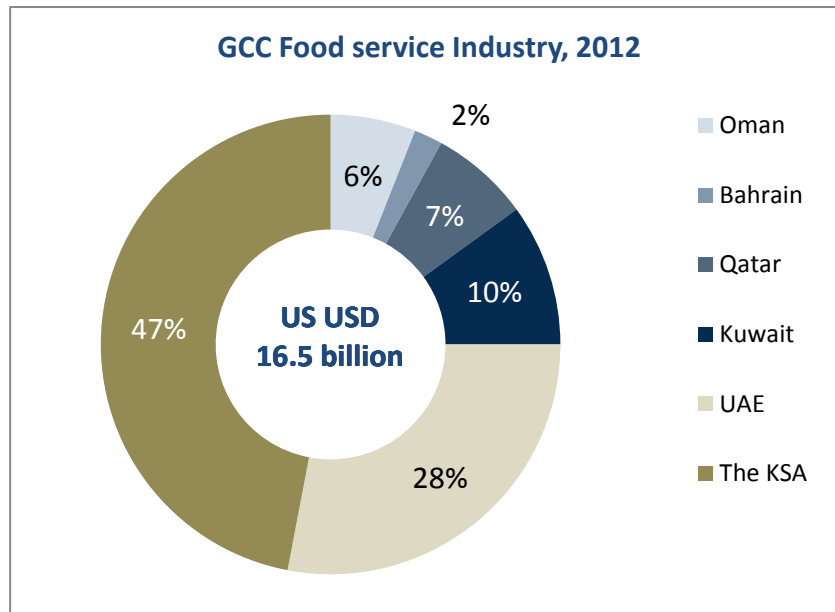
Source: Frost and Sullivan

The KSA food service industry consists of three main segments: Full Service Restaurant, Quick Service Restaurant (QSR), and Cafes. Around 51 per cent of the revenue during 2013 was generated from the standalone outlets out of which, 74 per cent were from the Quick Service Restaurants segment and 11 per cent from Full Service Restaurants.

In 2012, the KSA bagged the honour of being the biggest fast food market in the GCC, at around USD4.5 billion/year. The market is expected to reach USD 4.5billion by 2015at CAGR of 6 per cent during 2013-2015.

Like other countries in the GCC, the fast food space in the KSA is dominated majorly by Western brands like McDonald's, KFC, Burger King, Hardee's, and Domino's Pizza. More than half of the top 20 restaurants chains in the KSA are Western brands.

Exhibit 3



Source: Al Masaha

By 2015, it is likely that restaurant chains selling hamburgers and deserts will grow and they shall comprise 20 percent of food service transactions in the KSA. During the past 20 years, there was a tremendous growth in the number of quick service and casual dining restaurants in the KSA. Compared to other two segments, the fine dining segment growth was gradual.

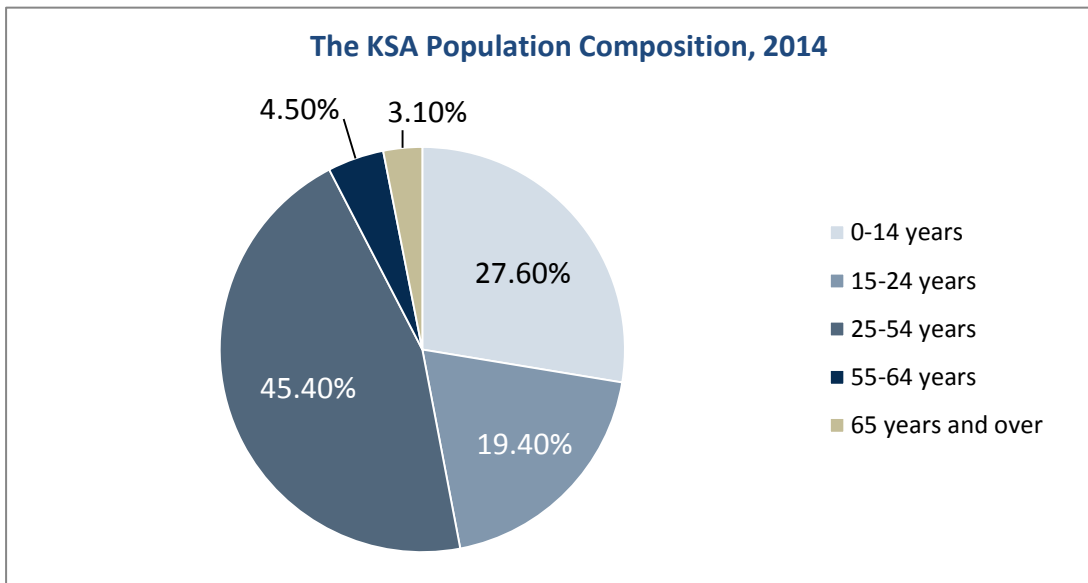
Apart from these major segments, the institutional food sector (catering services) in the KSA is also faring well. Annual revenue of catering market is estimated to be approximately USD 5.0 billion. The institutional food segment provides services to schools, labour camps, office and college cafeteria, hospitals, catering for Hajj military prisons, special events, and airlines. It relies mainly on imports for the soaring food requirement. Recently, there is an increasing demand for food delivery market in the KSA which is expected to expand and reach USD218.6 million by 2020. Self-service cafeterias are a niche segment in the KSA. As of 2013 there were only 45 outlets in the country. This is mainly due to lack of gender-segregated areas and women not comfortable to eat in public places.

### Drivers for Food service Industry

The KSA has the largest population (30.62 million in 2014) in the entire GCC. This represents 77 per cent of total population of the GCC and 50 per cent of them are under 25 years old.

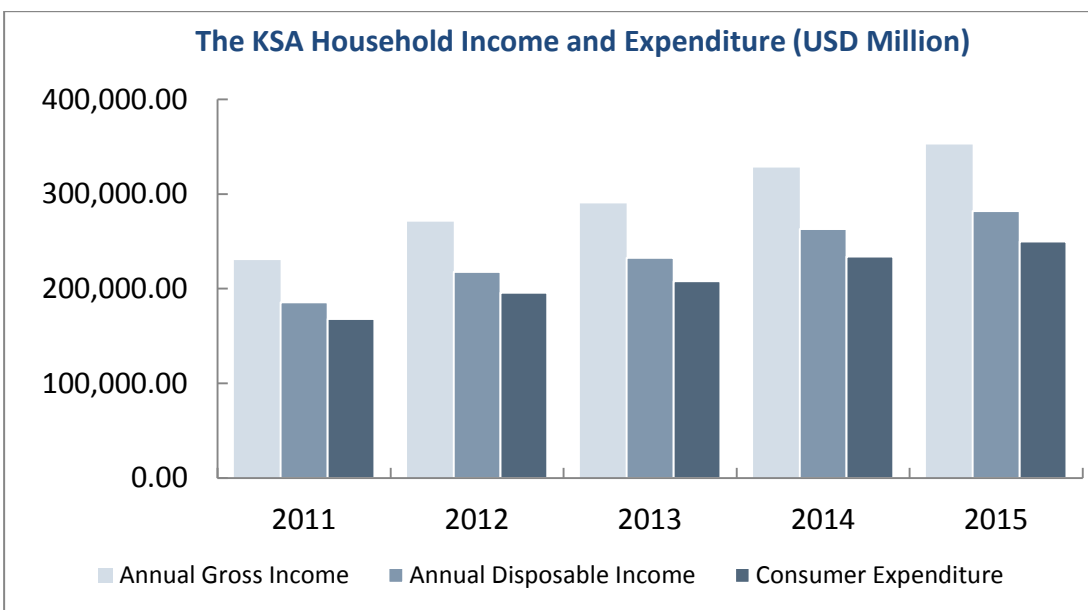
## The KSA Population Profile

Exhibit 4



Source: CIA

Exhibit 5



Source: Euromonitor

- 
- ✓ An increasing population of the younger generation coupled with disposable income is fueling the growth of the restaurant industry in the KSA. Personal disposable income levels will continue to grow (at a CAGR of 10 per cent over 2011-2016, according to EIU) with development across all sectors in the backdrop of the strong economic growth of the KSA.
  - ✓ As per IMF, GDP growth rate of the country is expected to touch 4.4 per cent by 2016.
  - ✓ In addition, high acceptance level of international restaurant chains by locals and high affinity towards meat makes the KSA an attractive market for the foodservice industry in the region.
  - ✓ Due to lack of entertainment centres in the KSA, fast food centres and restaurants are emerging as the popular destination for people to socialise with friends and family.
  - ✓ Long stretches of extremely hot weather and lack of other entertainment centres encourages families to choose restaurants as a destination to meet and socialise with friends and family.
  - ✓ Large numbers of Saudi nationals, who travel abroad, come back with developed affinity towards international cuisines, which encourages international brands to start outlets in the country.
  - ✓ More number of women entering the workforce is another major factor riding the food service industry of the KSA. As per Saudi Central Department of Statistics and Information, 647,000 Saudi women were employed in 2012, 86 percent increase compared to 1999.
  - ✓ Government support schemes to enhance the growing private sector business opportunities with focus on increasing the national and foreign investments as public spending has increased by 15.8 per cent is encouraging international food servicing companies to set up outlets in the region.
  - ✓ Restaurant chains are likely to grow in the region to the increase in the number of hypermarkets, supermarkets, and shopping malls. During 2002-2007, around 1,500 new foodservice centres opened in retail locations, representing 48 per cent growth, compared to outlet growth of 25 per cent in overall Saudi foodservice market.
  - ✓ The KSA receives five million pilgrims every year from all over the world during Hajj and Umrah. The restaurant industry benefits a lot during these months.

The KSA law prevents women to go out alone and consume food in public places, which restricts women customers from visiting the restaurants.

- Stringent food laws forces operators to increase the price of the meal, which makes it unaffordable for the common people.
- Shop leasing/ renting is a costly affair in the KSA.
- The restaurant industry is highly fragmented with lot of local /international participants in the KSA, which makes it a highly competitive market.

---

## Challenges

Labour crunch is the biggest challenge the KSA restaurant industry is facing today. Due to Saudization (the new labour law in Saudi), an employer should fill maximum positions with Saudi nationals and the rest would be allocated to expatriates. However, the nationals are reluctant to take up jobs in restaurants and cafés as they consider it as a low esteem job.

Since restaurant operators are not allowed to employ foreigners, many positions remain vacant.

Moreover, the pay scale As per World Bank estimates, GDP growth rate of the country is expected of other nationals is much above non-Saudis, which also poses serious threat to the employers.

Chefs in the KSA, compared to other international locations, are underpaid and underemployed. In addition, despite the fact that in the KSA, more women graduate with hospitality degree than men, the hospitality industry is still considered as an undignified place for women.

## Trends

Recently, the Internet and smart phone penetration rate in the KSA has increased significantly. It was around 50 per cent and 60 per cent, respectively, during 2012-13. More number of people is accessing social media sites using smart phone and tablets. Restaurants targeting the tech-savvy generation are introducing online services like online ordering and restaurant finders.

One of the leading food delivery services in the country has launched a mobile application to track and order food from the required location, a quick and convenient method of ordering food. Many people now prefer home delivery services due to their busy lifestyles.

Awareness amongst nationals about the importance of consuming healthy food is driving the market of Salad and Juice bars in the KSA.

Consumers are also proactive in understanding nutritional information and ingredients of the food they buy.

Fusion food is a concept, which is likely to flourish in the KSA due to a growing number of expatriates. Most of the restaurants now offer a combination of traditional and modern cuisines to attract people from all regions.

Few casual dining or fast food restaurants have regional suppliers based outside the KSA. McDonald's Saudi Arabia uses a Saudi company based in Dubai as its exclusive supplier of

---

imported food products for its Middle East operations. Al-Ahlia Restaurant Company that operates several international brands in the KSA has a regional purchasing office in Cairo.

## Major Segments

### Quick Service Restaurants/Fast Food

It is estimated that the fast food industry revenue of the region will reach USD 6.9 billion by 2017. During 2012, it was around USD 4.2 billion. There were 12,689 fast food restaurants in the KSA as per 2011 records. American fast food chains dominate the international segment with the major participants being KFC, McDonald's, Burger King, etc. Of the total food imports in the region, 80 percent are consumed by restaurants. Al Ahalia Restaurants Company owns the maximum franchisee of western brands in the KSA.

Pizza Hut has two franchisees in the KSA, Awni & Bashar Shaker Company in Jeddah and Mawarid Company for the rest of the country. Same is the case with McDonald's. The company's outlets in the West and Southern Provinces belong to Reza Food Services. Central, Northern, Eastern, and Northern provinces are franchised by Riyadh International Catering Corp. Ltd.

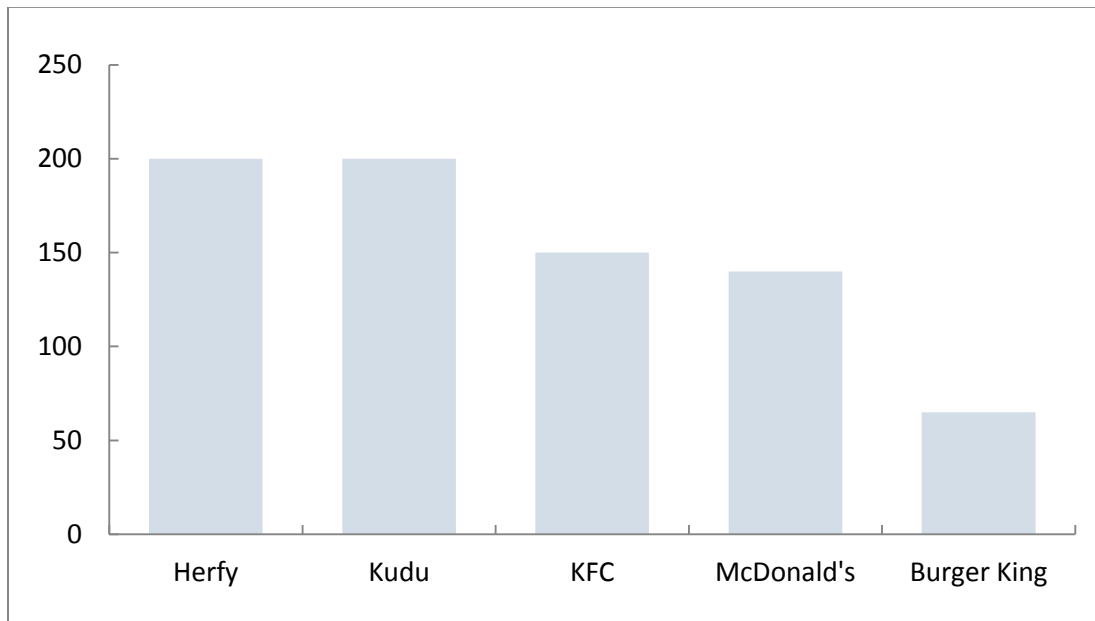
### Key Participants of QSR (Quick Service Restaurant) sector, 2013

Herfy and Kudu, two KSA-based companies are the market leaders in the fast food segment. They started operation in the country 25 years back and are well appreciated for outpacing the international brands. Herfy has its own meat processing plant, commissary and distribution facility, which ensures a smooth, safe, and secure supply chain along with quality.

---

**Exhibit 6**

**Key Competitors in Quick Service Restaurant Segment**



*Source: Shua Capital*



---

## Trends in Quick Service /Fast food

Many fast food centres have opened outlets in shopping malls and hyper markets to attract the youth.

Fast food centres have come up with the drive-through concepts for the convenience of busy working professionals.

Some international outlets have introduced fusion menus like MC Arabia Grilled Chicken, McDonald's pita bread sandwiches to attract the local taste buds.

Yet another group of restaurants offer free home and office deliveries with freebies.

In order to attract the family customers, restaurants have built play area for children to entertain the young customers.

## Casual dining Restaurants

In the KSA, the concept of casual dining started during late '90s and, within a decade, the segment has witnessed a tremendous growth and penetration with addition of new brands almost every year.

Currently, the casual dining restaurants sector is also growing alongside the QSR and is expected to generate revenue worth SR28.9 billion (USD 7.7 billion) by 2014. The entire full service restaurant segment market value in the region was around USD 2.7 billion during 2012. The concept of fine dining is still confined with the affluent class and is not witnessing any drastic growth at the moment.

With more international brands heavily investing in the casual dining segment of the KSA, casual dining restaurant chains are mushrooming all over the country. The penetration level of international brands is very high and it is one of the fastest growing segments in the consumer food service industry.

Applebee's (15 outlets and counting), Outback Steak House, Chili's, and TGI Fare the top international participants in the casual dining restaurants sector.

The casual dining restaurant market is likely to grow at a CAGR of 6 per cent; touching SR28.9 billion by 2014. The number of outlets in the region would reach approximately 17,000 by 2014.

In order to capitalize on the opportunity of growing casual dining segment, the Saudi Economic and Development Company (SEDCO) created Arabian Entertainment Co. Ltd. (AECL, which is well within the Shariah principles and investment guidelines). Through AECL, SEDCO partnered with well-known international restaurants like Applebee's Grill and Restaurant, the world's largest casual dining restaurant company.

---

Arabian Entertainment Co. Ltd. opened its first Applebee's restaurant in Jeddah in 2003. Currently, AECL is the largest franchisee for Applebee's in the ME.

### **Trends in Casual Dining**

Home delivery service/takeaway is getting more popular amongst the consumers and casual dining restaurants recently started with home delivery services in the region. With increasing competition at every level, restaurant chains are looking at avenues to add extra revenue channels to their business. Currently, delivery/take-away subsector contributes 23 per cent of the total food service market (about SR6 billion).

Some casual dining restaurants have started offering breakfast in some of their locations, which is bliss for working professionals. Casual restaurants are now coming up with customized menu for children, adults, and teenagers to attract people of all age group.

Companies are also working on smart investment models like setting up outlets in malls, mainly to cash in on the opportunity of increasing number hypermarkets and malls in the region.

With cities like Riyadh and Jeddah getting saturated, for the next four to five years, suburban cities will witness as urge in restaurant chains.

As per franchise consultants, many mid-sized international restaurants chains are planning set up operations in the region.

### **Cafés**

Chained specialist coffee shops are getting popular gradually with a growing population of professional expatriates to the young local population trying to emulate Western lifestyles and culture. As of 2011, there were 1563 cafés and 372 specialist coffee shops in the KSA, and they generated revenues worth USD354.6 million and USD117.3 million, respectively, in the same year. It is predicated that the combined revenue during 2017 would be USD 1 billion. In the KSA, 87 percent of the coffee shops are coined as specialised coffee shops.

Main participants include Starbucks, Costa Coffee, Seattle's Best Coffee, Mochachino, and dr.Café Coffee.

### **Trends in Café**

Coffee shops in the KSA are now not only places for relaxation and comfort but also offers facilities to discuss various topics including sports, culture, science, technical issues, finance, and socio-political issues of the country.

---

## Company Trends

### McDonald's, the KSA

Developmental licensee model is the franchise model that McDonald's follows in the ME. In this model, restaurants are solely owned and operated by local business owners.

During the holy month of Ramadan, McDonald's drives campaigns, which contribute towards children's education through selling books covering topics such as good manners and the importance of helping family and others. It hosts Iftar gatherings for children of local orphanages, engaging them in entertainment activities.

Saudization McDonald's has reached up to 40 per cent in some areas.

## Entry Regulations for Foreign Companies/Permits and Licenses for Entry

A foreign entity can establish its business in the KSA through various models. Limited Liability Company (LLC), joint stock, and branch offices are the models designed for International companies in the country. A Saudi partner is not mandatory in an LLC model as there is no minimum percentage of foreign ownership. The only criterion is that the operator is required to make a minimum capital investment USD 0.1 million and a Joint Stock company (JSC) would be shared by five or more individuals/entities. The minimum capital investment required for JSC is USD 0.5 million. Foreign companies can start a wholly foreign-owned office in the KSA, provided they do a minimum investment of USD 0.1 million. The SAGIA issues the license to establish a branch office in the KSA.

## Competitive Assessment

Exhibit 7

Name of the company	Product variety	Model of Business	Number of years in the KSA	USP	Number of outlets	Weakness
Herfy	Serves Arabic/Saudi and western fast food and breakfast	Local Enterprise	33 years	1. Saudi-owned restaurant. 2. Number one restaurant chain in the KSA, which offers one of the most varied menus choice of 19 combo meals and around 30 individual items from hamburgers to chicken, seafood, and a	170	Expatriates are not keen on visiting the restaurant, as Western brands are more familiar to them.

				<p>variety of side orders.</p> <p>3. Herfy regularly refreshes its menu with new additions as per recent hits including desserts and side orders.</p> <p>4. Having ISO 22000:2005 certification for all outlets, it is one of the first companies in the region to have such certification with effectiveness.</p> <p>5. The company has its own meat processing plant and bakery</p> <p>6. The restaurant business is a part of a large conglomerate</p>		
<b>Kudu</b>	Serves Arabic and western fast food, sandwiches, and breakfast	Local Enterprise	26 years	<p>1. Saudi-owned restaurant</p> <p>2. Affordable</p>	200	Expatriates are not so keen to visit the restaurant as Western brands are more familiar to them
<b>KFC</b>	Serves only Italian cuisines like pizzas and pastas	Franchisee	34 years	1. Nutritional value/ ingredients mentioned in the website	184	Unavailability of Arabic fusion menu

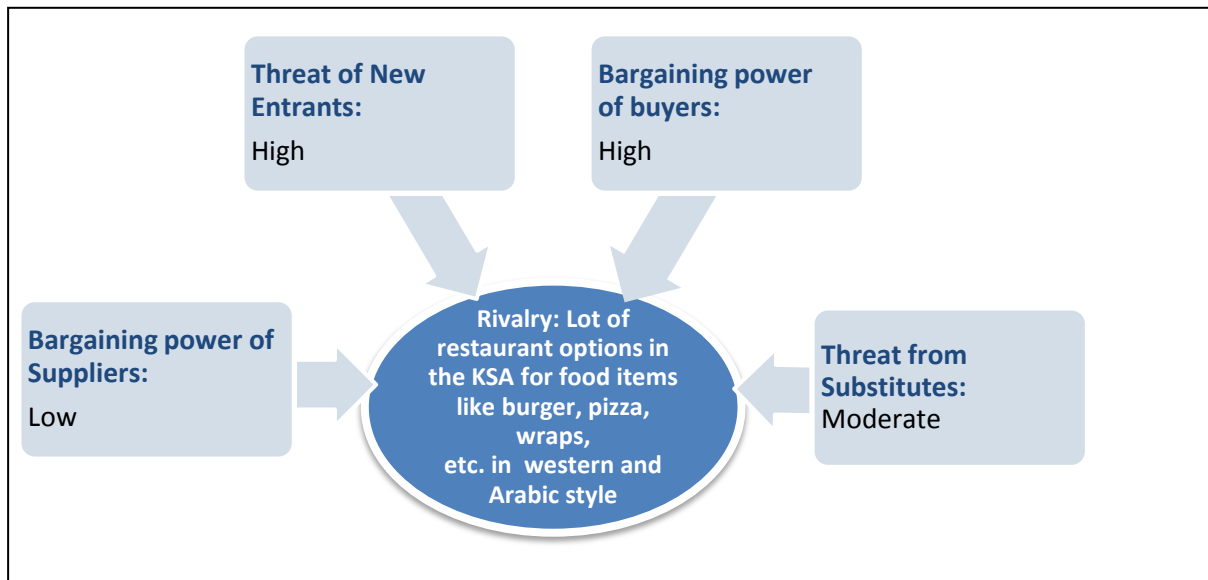
<b>McDonald's</b>	Serves Arabic fusion menus to attract local customers	Developmental franchisee model	21 years	<ol style="list-style-type: none"> <li>1. Nutritional value/ ingredients mentioned in the website and fliers</li> <li>2. "Your right to know" link (in McDonald's KSA website) answers all queries related to customer apprehensions regarding the quality of raw materials used</li> <li>3. Saudization McDonald's has</li> </ol>	114 (2012)	
				<ol style="list-style-type: none"> <li>4. reached up to 40 per cent in some areas</li> <li>5. Follow developmental franchisee model, ownership to local business partner</li> <li>6. Healthy work culture</li> <li>7. Creating a positive image in the country by holding local charitable campaigns and blood donation camps</li> </ol>		
<b>Pizza Hut</b>			24 years	Provides both home delivery and dine in	162	Expensive compared to other restaurant chains
<b>Burger King</b>			22 years	"Have It Your Way" customization to compliment	85	Offers only burger varieties

				consumer's preference		and side orders
--	--	--	--	-----------------------	--	-----------------

Source: Frost and Sullivan

## Barriers of Entry

Exhibit 8



Source: Frost and Sullivan

### Rivalry

A variety of options for food items like burger, pizza, wraps, etc. Around 1000+ restaurant chain outlets all over the country; restaurant chains like McDonald's, Pizza Hut, Domino's, etc. have hundreds of outlets in the KSA.

### Threat of new Entrants

Of all service sectors, retail and food services are the more mature industries in the KSA that have already witnessed entry of many foreign brands. With a growing consumer appetite and awareness, more participants are entering the market apart from the emergence of local participants, which makes it imperative for existing participants to keep adding to their competitive advantage to stay in business. Branding would be a challenge in the current scenario with lot of established participants. People are not much open to experiment anything beyond western food. There are very limited non-Western restaurants and most of them are confined to only the fine dining segment. Due to Saudization, new entrants would be forced to employ nationals; however, Saudi citizens are not keen to take up jobs in the restaurant industry.

### Bargaining power of buyers

---

Customers are becoming more demanding in terms of quality food and services. With a variety of choices in the country, lead buyers look for lower prices and better services. Disposable income levels and an increasing young population are fuelling the growth.

### **Bargaining power of Suppliers**

Rising raw material price and a scattered supplier base increase the bargaining power of suppliers. Majority of the suppliers are based outside the country. Except a few, most of the raw materials required for cooking are imported. It is estimated that the KSA imports foodstuff worth over USD7.0 billion, annually. Stringent food regulations in the country also add to the increasing bargaining power of suppliers.

### **Threat from substitutes**

Ready-to-eat packaged food and home meal replacement are getting very popular amongst the young generation in the region. The health-conscious young working population prefers them. The packaged food industry in the KSA has reached the retail sales value of US 16.5 billion during 2012 and is likely to grow at a CAGR of 8 per cent during 2014-18 and touch US 30.6 billion by 2018. The meal replacement market is also growing at a CAGR of 15 per cent (2014-2018) and is expected to reach USD 10.4 billion by 2018.

---

## Recommendations and Conclusions

### Conclusions on the Food Service sector

- The restaurant industry is witnessing significant growth all over the world. Political, economic and low labour market and other socio-cultural factors contribute to the growth.
- The economic and political condition of the KSA is very encouraging and the Government spends on many aspects to encourage the restaurant business in the region; for instance, ban of smoking in restaurants, etc.
- Furthermore, the Government plans to emphasise on strengthening the private sector business opportunities with focus on increasing the domestic and foreign investment. The Government has increased the budget for new private projects by 36 per cent.
- The role of females in the Saudi society is changing dramatically. Now women are encouraged to enter workforce, which has affected the purchasing power of the family in turn is favorable for the restaurant industry.
- The flip side is that the KSA legal processes are very complicated and risky for any type of enterprise.
- The restaurant industry depends heavily on price, service, location, and food quality, changes in consumer trends, economic conditions, demographics, traffic patterns, and nutritional concerns of foods.
- Organic and fresh foods or alternative food-based restaurants can create waves in the industry with the increasing population of educated, well-travelled working class.

### Attractiveness of the Food and Restaurant Service Sector

The KSA has 77 per cent of the total population of the GCC and 50 per cent of them are under 25 years old. An increasing younger generation, coupled with disposable income, makes it an ideal destination for the restaurant industry.

High acceptance level of international restaurant chains by localities and Government support schemes to enhance the growing private sector business opportunities with focus on increasing the national and foreign investments encourage international food servicing companies to set up outlets in the region.

Restaurant chains are likely to grow in the region with the increase in the number of hypermarkets, supermarkets, and shopping malls.

The ability of the KSA-based restaurant operators to generate high margins and profitability compared to other regions is the key factor attracting different international brands to the country. This is the same reason why the existing brands have hundreds of branches in the region.



---

Potential opportunities exist across all the segments, especially in the QSR and the casual dining segment. It is estimated that the fast food industry revenue of the region will reach USD 6.9 billion by 2017.

### **Segment's Attractiveness for Japanese Companies**

Japanese cuisine majorly uses rice as the main ingredient like the Arabs. In addition, seafood and vegetables are also given equal importance. There is less usage of spices like in most of the Arab cuisines. The high life expectancy of the Japanese people is due to their healthy diet. Their cooking styles are equally healthy, which preserves the nutrients in the food. Japanese food is preferred and consumed by health-conscious people all over the world.

There is a growing demand for dietary and healthy food in the KSA due to increasing food-related illness amongst the people. Studies show that locals believe (amongst both genders and across all age groups) that the most effective way to lose weight is to eat non-fatty, nutritious, and low calorie food.

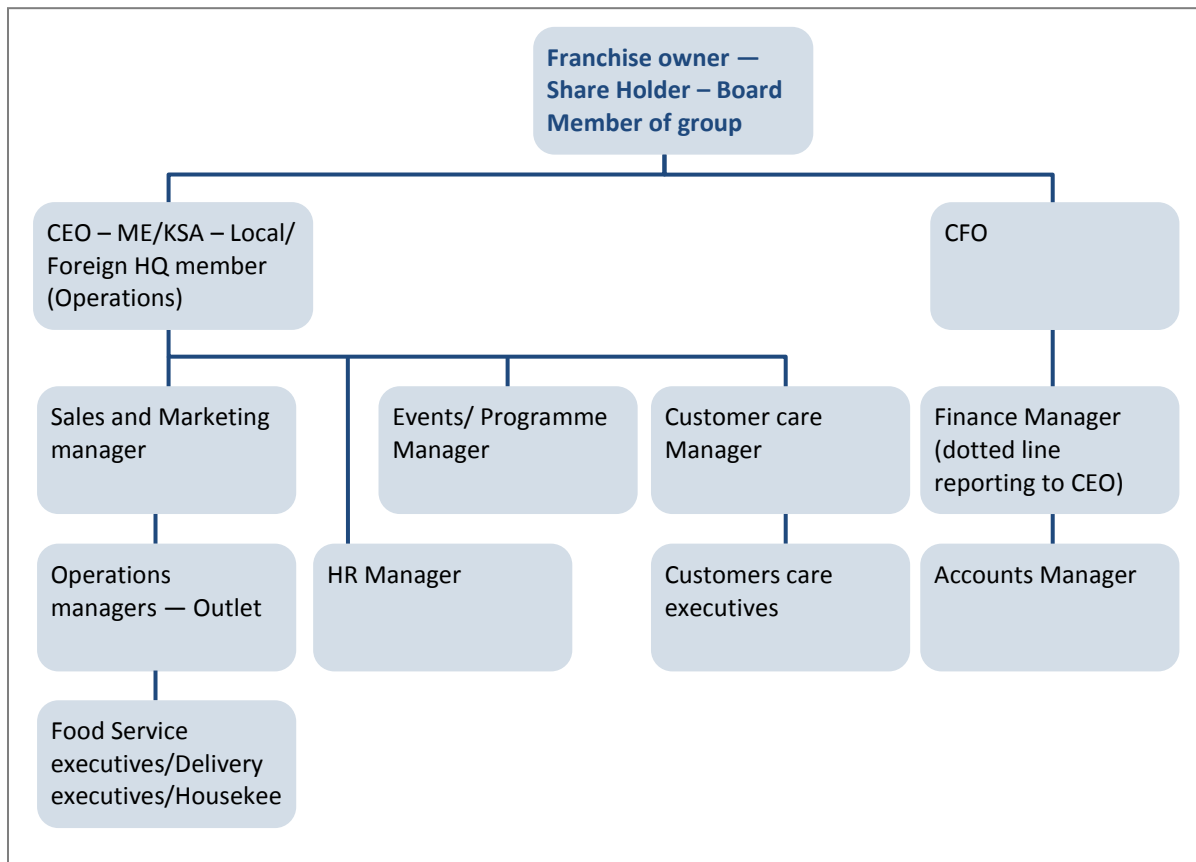
In this scenario, the nationals are more likely to be receptive towards Japanese restaurants.

### **Model of Entry**

In the KSA, fast food franchises account for more than 60 per cent of the total franchise market. Franchise is the most preferred, convenient, and hassle-free mode of doing business in the KSA. In the franchisee model, raw material supply, logistics, and warehousing are completely taken care of by the local partner. Moreover, this model has proved successful in the region.

## Recommended Organisation Structure

Exhibit 9



Source: Frost and Sullivan

### Recommendations on Location and Branch

Japanese food is less popular in the KSA as it is consumed by people who know about it. Therefore, it is always recommended to start the outlet in a metropolitan place like Riyadh or Jeddah. Japanese restaurants are very less in this region. Currently in the KSA; Japanese food is served mostly in fine dining facilities. Since QSR are more successful in the region due to various reasons, the QSR model would be highly desirable.

One branch at a time is recommended, as Japanese cuisine is not popular in the country. Adequate time needs to be given for the people to accept the concept. It is advisable to start with one outlet at a time and may be branch out after two years or so in a different location.

### Break-even Period

Restaurants have the highest start-up costs in franchising. However, successful international restaurants in the region adopted this model. It would approximately two to three years for a restaurant to become profitable under franchise model. Licensing, labour

---

cost, and building lease/rent would consume the lion's share of the investment. It would take two to three years for the restaurant to become popular in a region.

### **Recommendations on Marketing and Advertising Modes**

Audio-visual media, digital /print ads, outdoor ads, and social media are the popular advertising and marketing techniques adopted by majority of restaurants in the KSA.

Most of the restaurants in the KSA have their own Facebook and Twitter sites to attract the youngsters. Offers and new product / outlet launches are published on their FB/Twitter sites along with their company websites.

Innovative marketing techniques like digital activity via company websites, NGO campaigns to involve the public are also desirable.

### **Pre-entry Procedures**

Market research is necessary for any firm before they enter a new region. A survey should be conducted on the following aspects:

- People should be quizzed on their preference in terms of variety, taste, and ingredients of food
- Location preference
- Parking
- Seating (preference ladies only/family section, etc.)
- Ambience
- Quality
- Hygiene
- Security
- Price
- Smoking / non-smoking)

### **Case Study of a Successful Foreign Company**

McDonald's, the KSA opened its first outlet in Riyadh in 1993. They currently have more than 114 outlets across the country.

The fast food chain's success in the country is not dependent on any one thing in particular.

- The company has been focusing on brand building to grow the business in the region. Strengthening the brand by building brand trust is essential for long-term business strength and sustained profitability. Nutritional value/ ingredients of the products are mentioned in the website and fliers of the company.
- It has always been focusing on quality, food safety, and high operational standards. The company ensures to serve safe and high quality halal food to customers.

- 
- It follows developmental franchisee model, meaning it is 100 percent locally owned and operated. In this model, the parent company provides the local partner with all the support and know-how that is needed to run the business. But the day-to-day activities are managed by the local partners.
  - Introduction of Arabic fusion meals along with the original menus

All these factors have directly or indirectly contributed to the success of the brand in the KSA.

---

## Chapter 9: Education Services Sector

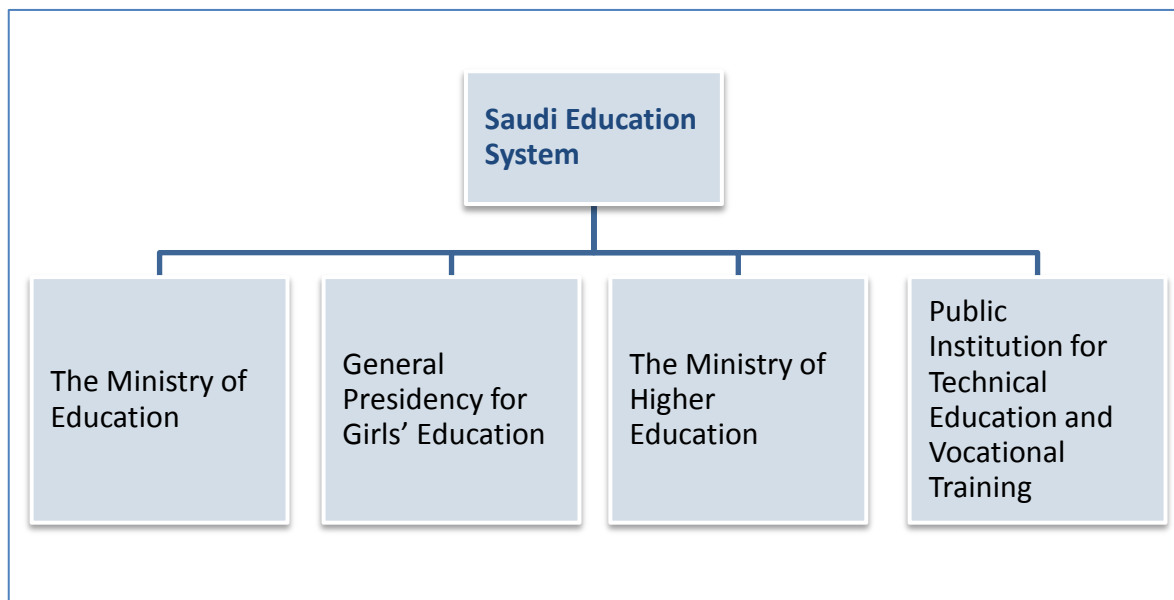
The KSA has one of the largest education markets in the world. As of 2013, it had 25 public universities and 30 private universities, with more than 500 colleges and 1.2 million students.

When the KSA was established in 1932, the education system was not very developed and was available only to a few. Only the urban wealthy families could afford it. Formal public schooling in the country dates back to 1960s. Since then, the country's education system has undergone drastic transformation. The first official primary school for girls started functioning in Riyadh (Al-Munajjed, 1997). Prior to this, only religious education was provided for boys and girls. The first university with a women's campus was started in 1979 (Riyadh's King Saud University) adding more colleges to the bandwagon. Currently, 60 per cent of college degrees in the region (including PhDs) are awarded to women. The current education facilitates provide access to wider jobs opportunities in fields such as engineering, media, and architecture.

With more Government participation, now the KSA accounts for 75 per cent of total students in the GCC, the largest in the region.

### The KSA Education System Overview

Exhibit 1



*Source: Embassy of the Kingdom of Saudi Arabia*

The education system in the country is completely controlled and managed by four departments: the Ministry of Education, General Presidency for Girl's Education, the Ministry of Higher Education, and the Public Institution for Technical Education and

Vocational Training. Lately, it has been observed that the private sector participation is increasing in the KSA's education sector. More and more international education institutions have started investing in this region.

In the higher education segment, King Abdulaziz University had the largest total enrolment in 2013 (177,234), followed by King Faisal University (134,942), and Al-Imam Mohammed Ibn Saud Islamic University (97,331).

Out of 355 upcoming educational projects all over the GCC, 92 per cent are in the KSA. In 2012, enrolment rate for tertiary institutions has increased at a CAGR of 12.3 per cent between 2007 and 2012, taking the gross enrolment rate to 50.9 per cent. Out of this, more than of 50 per cent of the enrolment was for engineering and medicine discipline. Approximately, 25 per cent of the total national fiscal spending and 7.6 per cent of its GDP are spent on education. As per the World Bank, the KSA has a very high rate of literacy; only 5.6 per cent of the people above 15 years are illiterate.

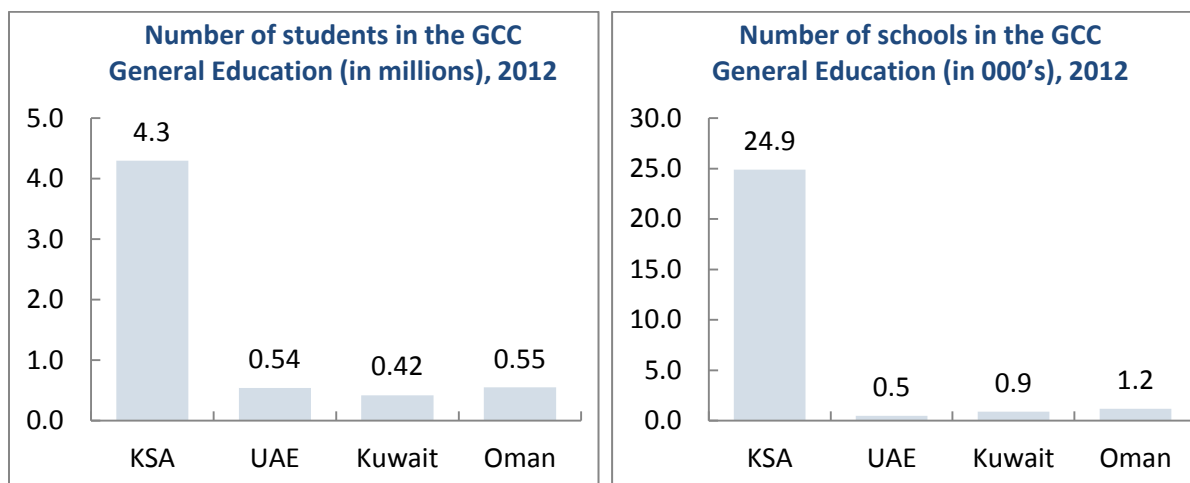
**Exhibit 2**

<b>Country</b>	<b>Pre-primary</b>	<b>Primary</b>	<b>Secondary</b>	<b>Tertiary</b>
Bahrain	49.8%	107.3%	95.5%	33.5%
Kuwait	82.2%	105.6%	101.0%	22.9%
Oman	54.6%	109.0%	94.2%	24.7%
Qatar	73.4%	104.6%	111.6%	12.1%
<b>Saudi Arabia</b>	<b>13.2%</b>	<b>102.8%</b>	<b>106.2%</b>	<b>50.9%</b>
UAE	71.1%	108.3%	90.6%	22.5%
GCC	26.2%	114.2%	111.9%	42.3%
World	50.1%	107.1%	70.6%	30.1%

*Source:*

The Government has created more awareness amongst the public by regarding the importance of education. With more employment opportunities created for citizens due to Saudisation, there is a surge in the number of students pursuing higher education. The KSA has the largest number of K-12 schools in the GCC, approximately 24,881.

**Exhibit 3**



Source: Gulf Capital

### Government Spending on Education: 2014

The Government of the KSA's spending on education is one of the highest in the world. Major focus has been in the secondary education segment. It is on par with the average across the rest of the Group 20 (G-20) nations. Primary and secondary education systems are considered as the backbone of the country's education. The country has allocated ~USD 593 million towards women-focused educational institutions during 2013-16, though it is only 10% of the total education expenditure during the same period.

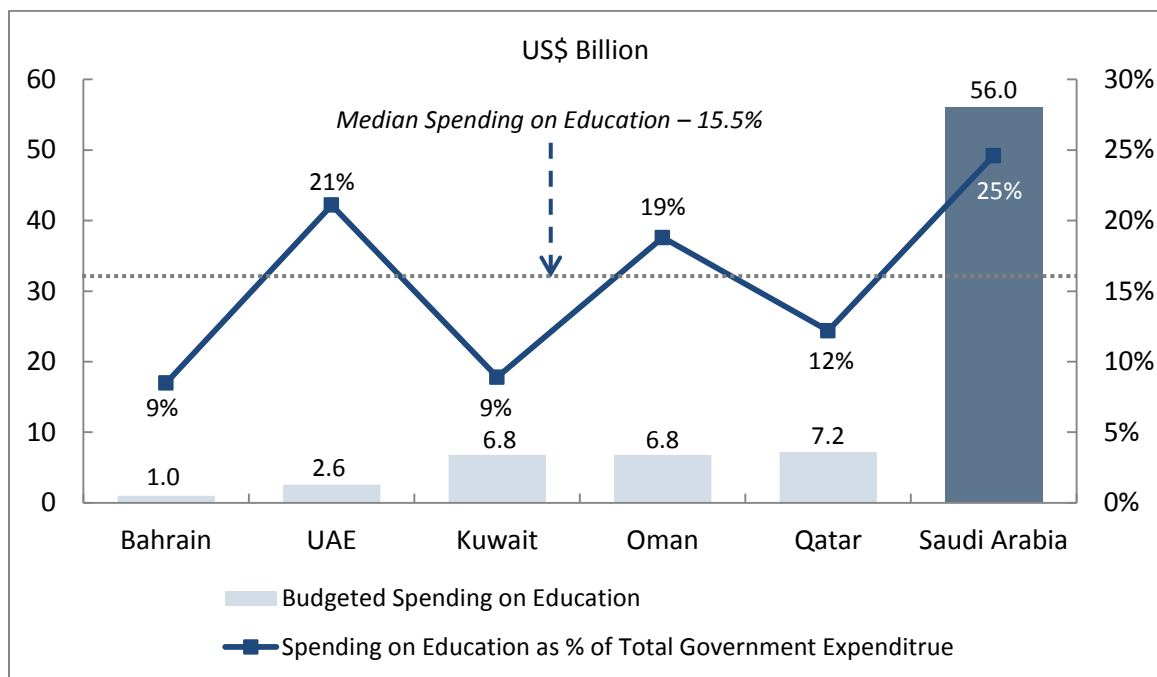
**Exhibit 4**

Education and Training	The KSA	Group 20 Nations average	Period
Public spending on education (% of GDP)	5.6	4.8	2008-2010 (average)
Secondary school enrolment (%)	97.3	95.0	2008-2010 (average)
Tertiary enrolment (%)	32.8	53.5	2008-2010 (average)

Source: World bank 2008-2010 average

The Government has disbursed USD 56 billion towards education and training system development in the country. In 2014, the Government has spent more than 20 per cent of the nation's wealth on the region's educational industry. During 1970, Government has also introduced an Educational Development Programme and the 10-year plan (2000-2010), emphasised majorly on the need of attaining world-class quality education. The Government focus is more on kindergarten and higher education and technical and vocational courses, which are the integral phases of the education system. The country, currently, spends around USD 1,922 per capita on education.

**Exhibit 5**

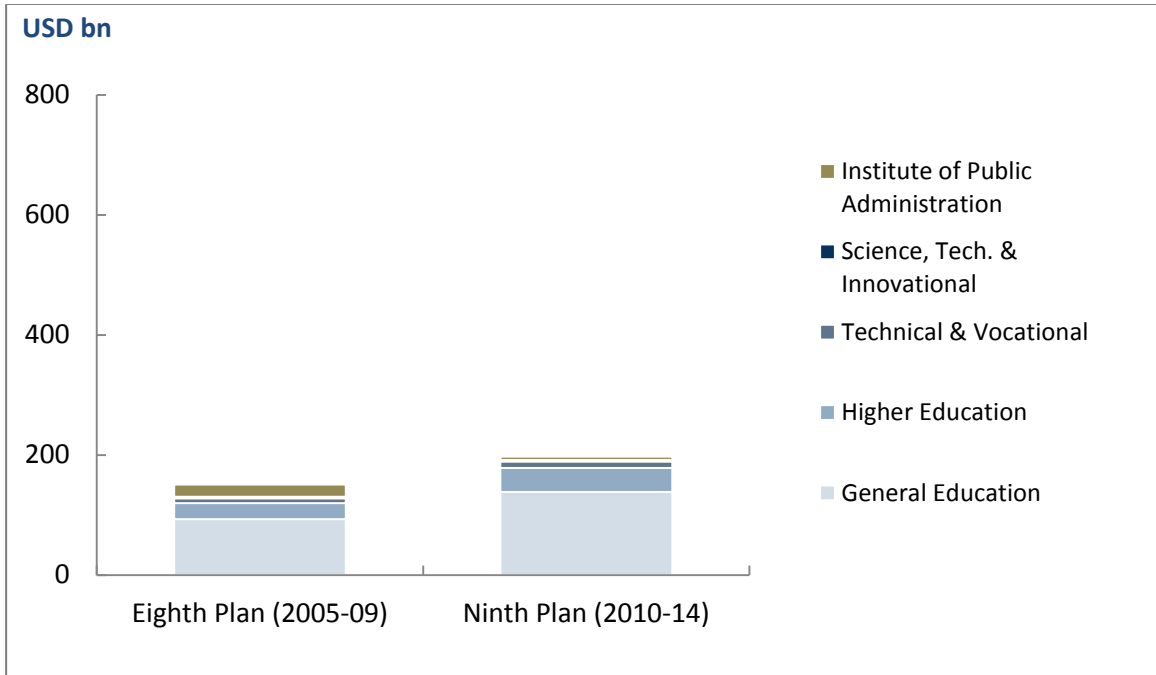


*Source: Ministry of finance of the respective countries*

The KSA Government approved USD 21 billion (in addition to the amount allocated annually to the education ministry) in the new five-year education plan for constructing 1,500 new nurseries, training 25,000 teachers, and establishing educational centres and other related projects in the country. The Government has allocated USD 56 billion during 2014 education budget (3 per cent increase compared to 2013 and the largest year-on-year increase since 2007).



**Exhibit 6**

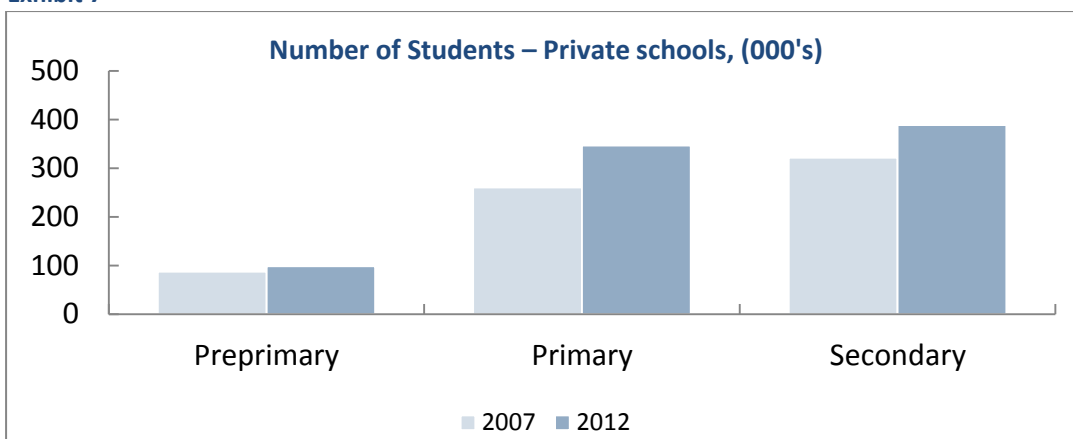


*Source: The Ministry of Economy and Planning*

Lately, it has been observed that the private sector participation is increasing in the KSA's education sector. More and more international education institutions have started investing in this region. Total primary and secondary enrolment during 2012 stood was around 6.4 million. The number of private schools in the country has increased at a high rate. Though new enrolment and investments are majorly happening in the private sector, currently, enrolment in public schools is the highest (close to around 90 per cent). This is due to the relatively lower expatriate population in the region.

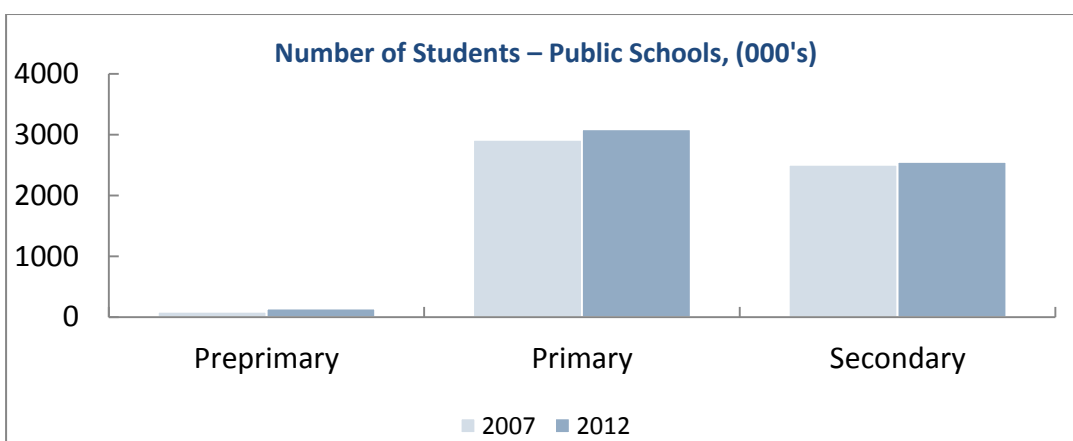
### **Private vs. Public School Enrolments**

Exhibit 7



Source: UNESCO

Exhibit 8

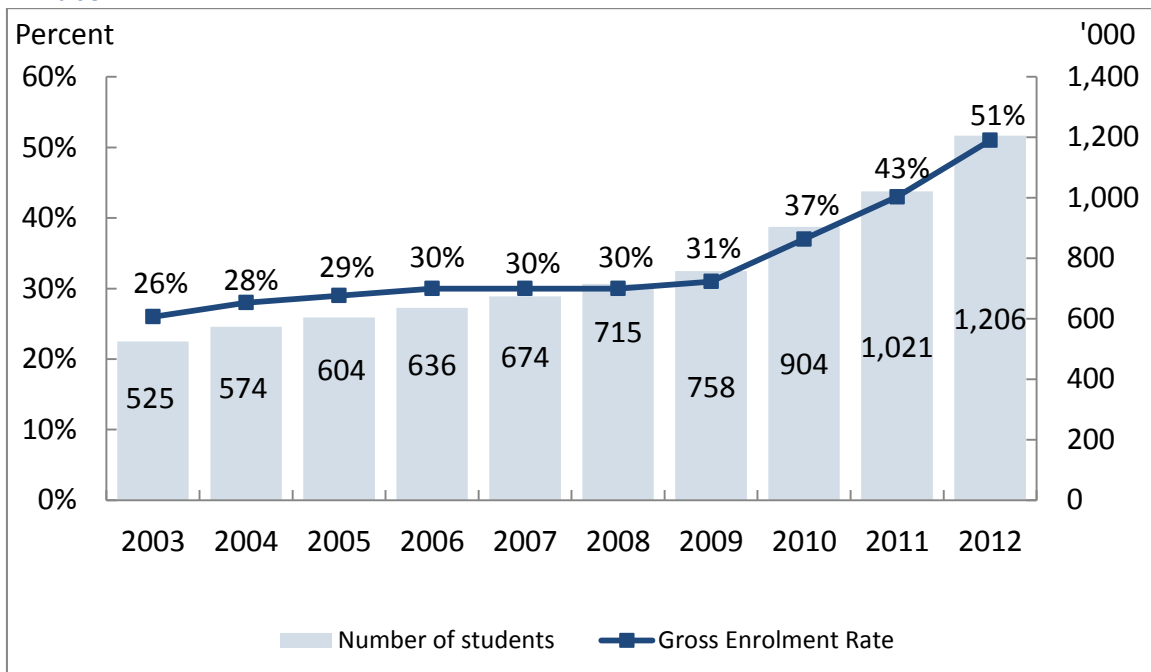


Source: The Ministry of Economy and Planning

Pre-primary education (nursery) is not mandatory in the KSA. One out of 10 students undergoes formal pre-primary education in the country; it is state sponsored. During 2012, there were 1,435,000 public institution enrolments compared to 98,400 private ones.

## Tertiary Education

Exhibit 9



Source: UNESCO

The tertiary education segment in the KSA has fared well in 2013, with 50.9 per cent increase in the number of enrolments compared to 20.7 per cent in 2007. The tertiary education sector was growing at a CAGR of 12.3 per cent during 2007-2012. In addition, the gross tertiary enrolment rate increased from 29.7 per cent in 2007 to 50.9 per cent in 2012.

As of 2013, the KSA has 25 public universities with more than 500 colleges, 30 private universities, and more than 1.2 million students. The interesting fact is that more than 50 per cent of the enrolment was in the disciplines of engineering and medicine, meaning that the country's efforts to diversify the economy and reduce the dependence on oil and gas wealth slowly started reaping benefits.

The KSA Government is in the process of developing the already established institutions like the King Abdulaziz City for Science and Technology (KACST). The education section of King Abdullah Economic City, which is 100 kms away from Jeddah, as well as institutions in the Prince Abdulaziz bin Mousaed Economic City and Knowledge Economic City are the target institutions. It has been decided that the planned Educational Zone would comprise a multi-university campus, with two R&D parks.

### Technical and Vocational Training

The vocational and technical training segment is another segment that the country is working .During the previous five-year plan (2010 to 2014). The Government allocated USD

---

6.1 billion (SAR 23 billion) towards technical and vocational training, an increase of 41.6 per cent compared to 2013.

By 2013, the country was expected to have 37 technical colleges, which would facilitate advanced training across all sectors.

The Colleges of Excellence (CoE) collaborates with 12 global partners for setting up 27 more technical colleges, which would be managed by various international applied technical and educational institutions from the US, Canada, the UK, Germany, the Netherlands, Spain, Australia, and New Zealand. The centres would cater to about 500 students per college in the first year, eventually rising to 2,000 per college in the next five years. The Government plans to create 100 technical colleges by 2020 under its reform programme.

### Special Education

The special education segment began to emerge in the KSA after 1958. The Ministry of Education established the Department of Special Learning in 1962 to enhance learning and rehabilitation services for children with special needs.

In 1964, three institutes were established for visually impaired students in Mecca, Aneaza, and Al-Hofuf (Al-Mousa, 1999). Now, there are institutes for the mentally challenged and deaf children in the country.

### E-Learning

The Ministry of Higher Education (MOHE) in the KSA has established the National Centre for e-Learning and Distance Learning in order to support the development of electronic education material and to facilitate an electronic venue for faculties inside the country to create e-courses through its own Learning Management System (LMS), Jusur.

King Fahd University for Petroleum and Minerals in Dhahran, Prince Mohammad bin Fahd University in Dammam, and Effat University have already started facilitating e-learning facilities to their students. The erstwhile Television Broadcasting Centre has been christened as “Deanship of E-Learning”. The Arab Open University in Riyadh, which is one of the oldest universities in the KSA, has also shifted to the e-learning model.

Most of the universities are currently using LMS to support their students. Inability to access physical lecture through the Internet is still a challenge.

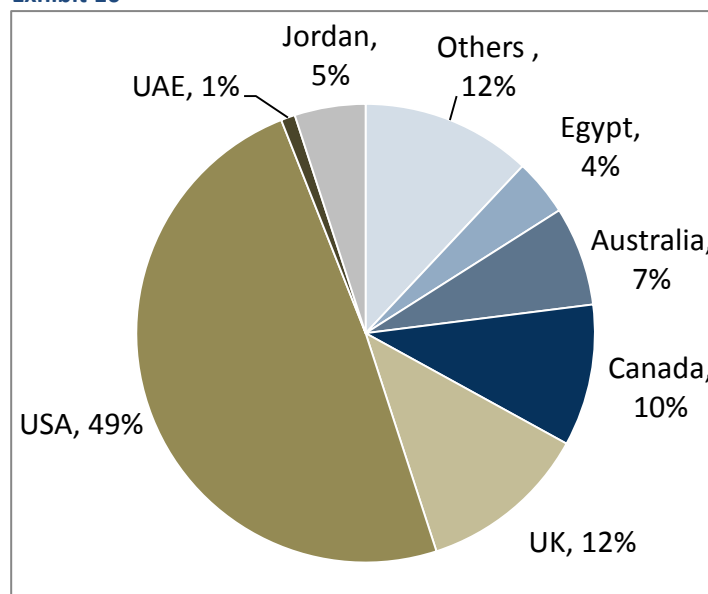
### Trends

- Distance education, virtual universities, and e-learning are picking up momentum as more number of people are opting it as a convenient way of continuing education.
- Special education and Adult Education are the two other segments the Government is focusing on.

- Apart from in-house academic support, the country is encouraging its bright young students to take up international education, thereby sponsoring them with scholarships for several “study abroad courses”. The “Holy Mosques King Abdullah Bin Abdul-Aziz Foreign Scholarship Programme” encourages enthusiastic students who wish to pursue education outside the KSA.
- The Ministry of Higher Education plans to support 50,000 Saudi students graduate from the world’s top 500 universities by 2020. As of 2012, there are 130,397 Saudi students studying abroad: 87,844 were on scholarships by the ministry, 11,854 for studying English, 14,103 civil servants sent on scholarships, and 16,596 students are self-funded.
- More students opt for universities in the US as they offer a variety of curriculum, high-end teaching techniques, security, and excellent academic support. After King Abdullah Scholarship Programme was launched in 2005, there has been a surge in the number of students pursuing overseas education. Currently, 70 per cent of the scholarship students pursue courses in business administration, engineering, information technology, and medicine.

### Student Mobility –Top Destinations (2012)

Exhibit 10



Source: WES Analysis

- 
- Private schools offering international curriculum are getting popular in the region. This has resulted in the increased number of international schools in the KSA. Several foreign affiliated universities and branches of foreign universities have established their base in the region recently. This would enhance the quality of education offered.
  - The GCC, as a whole, is witnessing the migration of students from other MENA countries, mainly due to easy access to better quality higher education institutes.
  - The private sector has become an inevitable part in the development of knowledge-based industries in the KSA through initiatives such as King Abdullah University of Science and Technology (KAUST), the education section of King Abdullah Economic City (KAEC), and institutions in Prince Abdulaziz bin Mousaed Economic City (PABMEC) and Knowledge Economic City (KEC).

### Drivers

- ✓ The Government's tremendous effort to enhance the education system in the country drives the growth of the education sector of the KSA. The ninth Five-year Plan aimed at increasing the capacity of primary, intermediate, and secondary schools along with universities in the region (50 per cent expenditure on Human Resource Development). It also encouraged the establishment of few research centres and university technological innovation centres.
- The urge to compete with the international education market introduces new curriculum and teaching methodologies.
- As per studies, citizens of the KSA are open to spending more on private schools as they offer better quality of education. The growing GDP and per capita income coupled with an increasing young population (58 per cent under 25 years old) is driving the education market of the KSA.
- The last and most important factor driving the growth of the education industry in the region is the planned decision to diversify its economy from the oil assets to a more knowledge-based society.
- The Government's encouragement in bringing knowledge-intensive industries to the country provides private sector / foreign organisations a favourable platform to enter the education sector in the region. In addition to it, Economic Cities will also provide ample opportunities for foreign organisations to participate in a variety of educational / training services.
- The Government's plan to replace expatriate workers with Saudi nationals by 2005 has also fuelled the growth of sector in the region.

### Restraints

- Though the Government is investing heavily on education, there isn't any substantial increase in the women workforce. Out of 60 per cent degree holders, only 15 per cent of

---

women work in various industrial sectors. The huge gender difference is proving to be a limitation in the country's efforts to develop a knowledge economy.

- There is clearly a discrepancy on the type of skills provided in the curriculum and those required in job market.
- The KSA's plans are to provide subsidies to educational institutions until 2018. Beyond this year, operators are likely to bear the entire cost of running the school including wage hike, which increases year-on-year (YoY). Short-term subsidy along with long-term wage change burden poses a great deal challenge for investors.
- The school managements are struggling to support the rapidly expanding number of students and to achieve good standards in English as well as mathematics, science, and many other subjects.
- Disciplines like medical sciences, engineering, science, IT, business studies, etc. are taught in English. Recently most universities have come up with one-year foundation programmes to bridge the gap between the school system and university study to ensure that students are adequately prepared for their university studies. As a result of this, the entire education system became too demanding and competent.

## Challenges

- Though the KSA is moving towards universal primary education target with rapid progress in order to compete with other developed nations, the country needs to go a long way.
- Reforming women's educational system is indeed a priority as well as a great challenge for the KSA Government due to religious restrictions for girls.
- The KSA regulates tuition fees, with a subsidy of USD 26.6 (SAR 100) per student for private operators. With very less subsidy in setting up a private institution in the country, generating positive returns on investments for the initial stage is a challenge.
- Like other countries in the GCC, the KSA also suffers from lack of professionals trained in Engineering, Science, and Medicine.
- The Saudisation policy restricts Institutions to hire expert faculties from outside the country.
- The lack of expert faculties is a challenge that is likely to pose a serious threat, particularly for private school operators.
- International faculties, who comprise around 42 per cent of the total workforce in the KSA public universities, are appointed on renewable term contracts and they are denied of permanent employment or right to apply for long-term contracts. Due to this they look for options in other countries in the GCC.
- In the KSA, education is considered as a non-profit business. Hence, adopting an exit option with public offering as an IPO model is difficult.
- Getting approvals from the Capital Market Authority (CMA) for institutions could be challenging as many operators in the industry lease their assets (buildings and land).

## Entry Regulations for Foreign Companies / Permits and Licences for Entry

In the KSA, international operators are not given licences to run higher education institutes. They have to enter into management contracts with local education providers.

The Government welcomes international educational institutes in the country to improve the educational system and to provide international quality of education to the nationals.

In the process of welcoming foreign capital investment and technologies, the country has incorporated certain policies and procedures to safeguard the interest of the sectors and the nation. The Saudi Arabian General Investment Authority (SAGIA), established in 2000, is the regulatory body, which oversees the licensing and policy implementation appointed under the Foreign Investment law. However, policy centric regulations are still implemented through respective ministries (like the Ministry of Education, Healthcare, etc.).

In order to start a business, the international operator must acquire a foreign investment licence from the SAGIA, an industrial license with the approval of respective Government bodies, which controls the sector.

## Competition Assessment

Exhibit 11

Company	Year of entry	Business Model	Presence in the KSA / Multi location / Single	Local HQ in the KSA / Dubai	CEO — local / Foreign HQ	How do they advertise in the KSA
King Saud University	1957	Government college	Multi-location	The KSA	Local	Print media / digital media/ social media
King Abdulaziz University	1967	Government college	Multi-location	The KSA	Local	Print media / digital media/ social media
Arab Open University	2002	Government college	Multi-location	The KSA	Local	Print media / digital media/ social media
Amideast		100% subsidiary	Single	The KSA	Foreign HQ	Print media / digital media/ social media

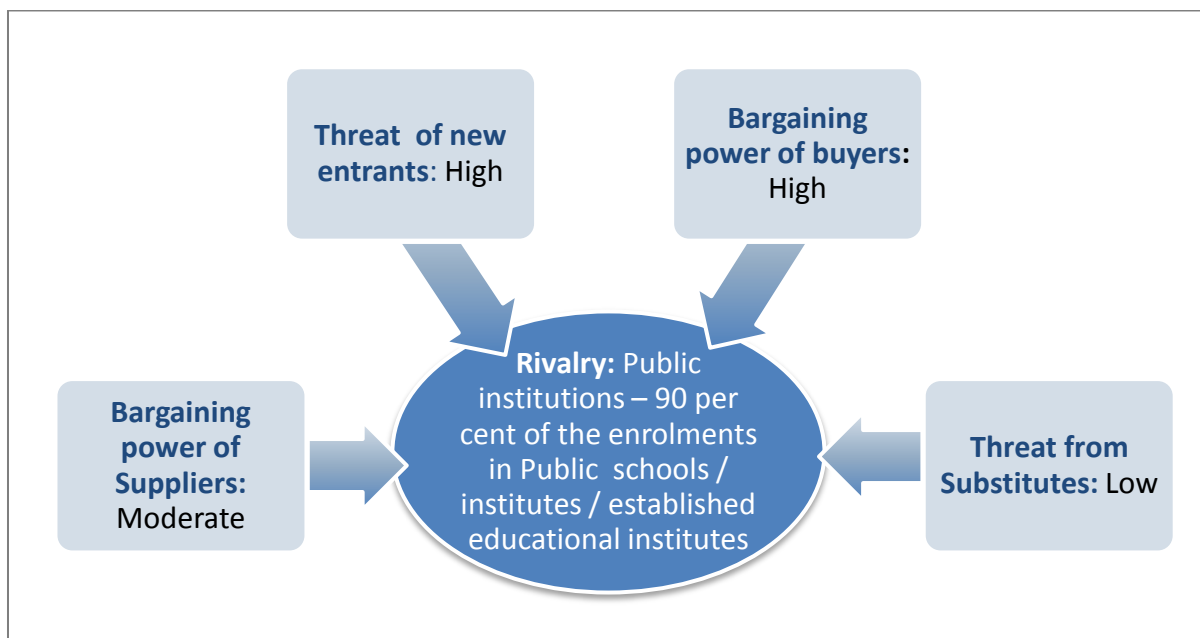


London School Of English		Franchisee	Single	The KSA	Local	Print media / digital media / social media
Berlitz		Franchisee	Single	The KSA	Local	Print media / digital media / social media

Source: Frost and Sullivan

## Entry Barriers

Exhibit 12



Source: Frost and Sullivan

**Rivalry:** Currently, there are lots of many highly established educational institutions in the country. Around 90 per cent of the students pursue education from public educational institutions. A new entrant will have to adopt strong marketing and branding methods to withstand the competition.

**Bargaining power of buyers:** Education is free in public schools / colleges. With new educational reforms in place, even the quality of education is improving. Even the private school fee structure is quite affordable. Too many options increase the bargaining power of parents / students.

**Bargaining power of suppliers:** Lack of trained faculties increases their bargaining power.

**Threat of new entrants:** More number of international institutions setting up operation in the KSA, stringent regulations in terms of setting up operations and hiring faculties, etc. pose serious threats to new entrants.

**Threat from substitutes:** Recently, many international / domestic educational institutes have started with online and distance education courses — a convenient way of pursuing education for busy professionals and women.

## Recommendations and Conclusions

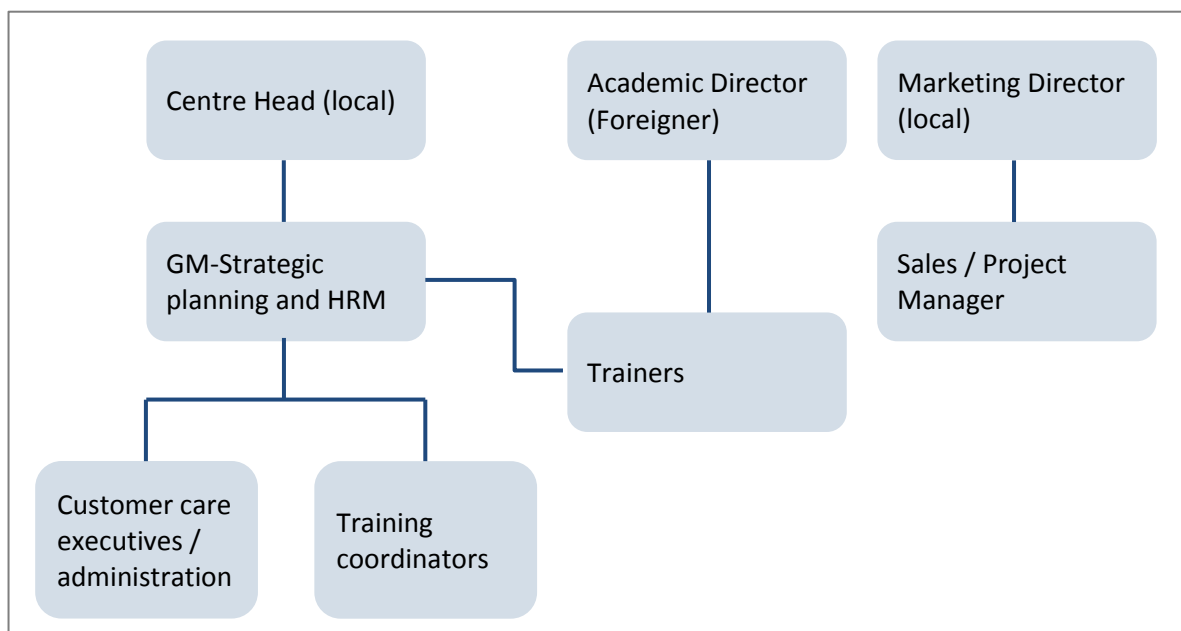
### Model of Entry

Most of the international institution in the KSA follow franchisee model due to strict regulations prevailing in the country. Joint venture or partnership with a known local education provider would also be advisable.

In franchisee model the infrastructure and branding would be completely managed by the local investor. The franchisor need to only provide the faculties/training support.

### Recommended Organization Structure

Exhibit 14



Source: Frost and Sullivan

---

## Attractiveness of the Education Services Segment for Foreign Investors

The KSA Government has allocated around USD 56 billion in 2014 towards development of education in the country. A five-year plan with a budget of more than USD 21.3 billion has also been approved by the King Abdullah, in addition to the yearly budget figure. The SAGIA is also planning to invest USD 500 billion by 2020 across various segments including education.

The KSA Government encourages international institutes to open centres in the region as a part of country's initiative to diversify business and empower the citizens with world-class education. As per International Schools Consultancy (ISC), the KSA has around 203 international schools (as of 2015)

Potential opportunity exists across all sectors including the schools' general education, vocational education, training, higher education (HE), and professional training.

In the Japanese high technology education, weightage is given on the final course projects and works. Japanese institutes give more importance to research-based study and Japanese education is not confined within universities and schools. They believe in implementing what they have learned and the best method of learning is practice. Necessity and choices of the business world have a major role to play in the Japanese education system. Organising children in groups, since kindergartens in the Japanese education system encourage students to be more sociable and active, prepare them for their future life. Technological education begins in kindergartens in Japan. Field trips to technological museums and creating interest in children by encouraging free play with building blocks with sensors, etc. are part of the curriculum. The Japanese education system gives equal importance to academics and co-curricular activities.

The KSA education is in a transformation phase and would welcome every opportunity to experience world-class education methodologies. This would also give them an opportunity to compete with international students worldwide. Currently, 70 per cent of the private schools in the KSA have an unsuitable learning environment due to lack of trained faculties and poor management and planning processes. Majority of international schools in the KSA have an exorbitant fee structure.

The international schools, except for some Asian schools in the KSA, follow either the UK or the US curriculum. The well-rounded education system of Japan that gives importance to practical learning would be of interest to the KSA institutions.

However, the most significant challenge would be that in Japan, most education is imparted in the native language. Redeveloping the curriculum in English would be a necessity for the Japanese institutions entering the KSA and it would also be imperative to impart education in Arabic, at least at the primary level.

---

## Recommendations on Location and Branch

Jeddah or Riyadh would be ideal, as both are metropolitan cities populated with a mix of educated nationals and expatriates. An approximate time frame for a new educational institute to become profitable would be around six to eight years. A major chunk of investment will be spent in infrastructure development, furniture, interiors, land cost, and salaries of employees.

Leasing / buying of land is a costly affair in the KSA and the cost of acquiring a licence is an addition to this. Considering less student influx during first two years, it will take six to eight years for an institution to become profitable.

Currently, majority of the international institutes / schools in the KSA have one or two centres. Hence, it is advisable to start with one branch at a time and, slowly, once the confidence level builds up amongst the public, of branching out to other locations can be considered. The investor may start one branch each in both locations (Jeddah or Riyadh) and the second branch can be started three or four years after the first branch. The third branch can be opened once the ROI is covered for both the branches.

## Recommendation on Marketing / Advertising Modes

Print / digital media advertising are popular in the region (the top channels include Eysh Elly, Sa7i, Al-Timsah, and La-Yikthar). They should also consider having Facebook and Twitter accounts these social networking sites are supposed to gain popularity in the coming years. The number of Facebook users in the KSA was six million in 2012; this number reached 7.8 million in 2013, with five million of them accessing their accounts from cell phones. The number of Twitter users had hit five million in 2013 from 3 million in 2012, with an annual growth of 45 per cent.

## Pre-entry Procedures

A market research needs to be done on the following:

- Need for the institution in which level – Primary / Secondary / Tertiary
- Curriculum to follow
- Interest level in people in Asian-based education institutions
- Location
- Fee structure
- Teacher-student ratio
- Building
- Online education facility
- Smart classes
- Need to include co-curricular activities
- Co-education / gender-based

---

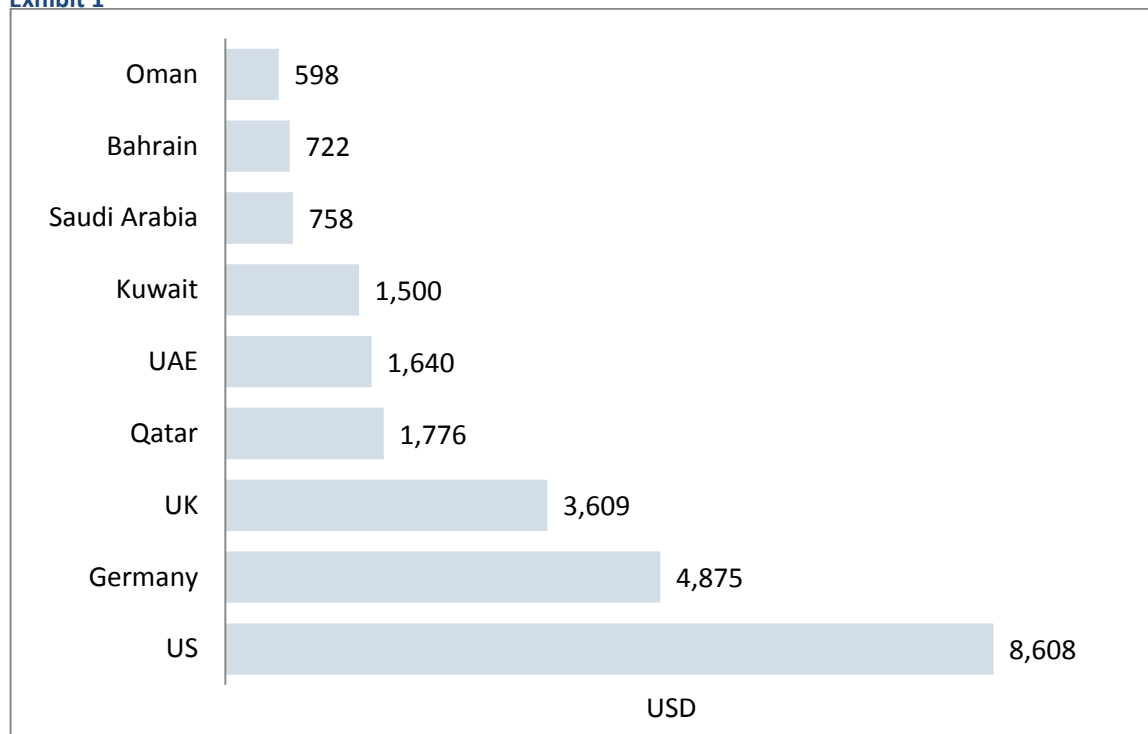
## Chapter 10: Social Welfare / Medical Services Sector

### The GCC Medical Services Industry

The GCC has witnessed a massive growth in the Healthcare Industry due to changes in demographics, increasing disposable income, which in turn increases the purchasing power of an individual, a steady population growth, and changing lifestyle, which results in lifestyle-related diseases including obesity, diabetes, and cardiovascular diseases. The KSA, being one of the biggest healthcare markets in the GCC, alone consists of 58.2 per cent market share and is estimated to grow at 12 per cent per annum to reach USD 69.4 billion by 2018. The Government is playing a very important role to promote the healthcare sector in the region by implementing various policies and measures to ensure continuous development of the healthcare sector through nurturing management skills, increasing the share of the private sector, and utilising IT skills to spread the reach and range of healthcare services. According to the International Monetary Fund (IMF), GCC is ready to manage the increasing demand from its ageing population. It is estimated that the number of people belonging to age bracket of 60-70 years and older, will jump from 1.2 million in 2015 to 14.2 million by 2050. It is also expected that the GCC will be increasing its expenditure on the healthcare segment at a CAGR of 11.4 per cent from 2010-2015.

### The GCC healthcare per capita spend vs. Developed countries, 2011

Exhibit 1



Source: Frost and Sullivan

---

The average expenditure on the healthcare sector of the GCC was USD 960 in the year 2011, which was way less than other developed countries including the UK, Germany, and the US.

According to the IMF and the World Health Organisation (WHO), the total healthcare expenditure in the GCC in 2011 was about USD 41.6 billion. The WHO and IMF also expected the sector to grow in the bloc, owing to higher market penetration by the insurance companies, growing lifestyle diseases and an ever-increasing population.

Factors deterring the growth of the healthcare sector of the GCC are:

- Lack of infrastructure
- Lack of skilled manpower
- Lack of private sector participation
- Preference to travel abroad for healthcare facilities

Growth Drivers in the GCC include:

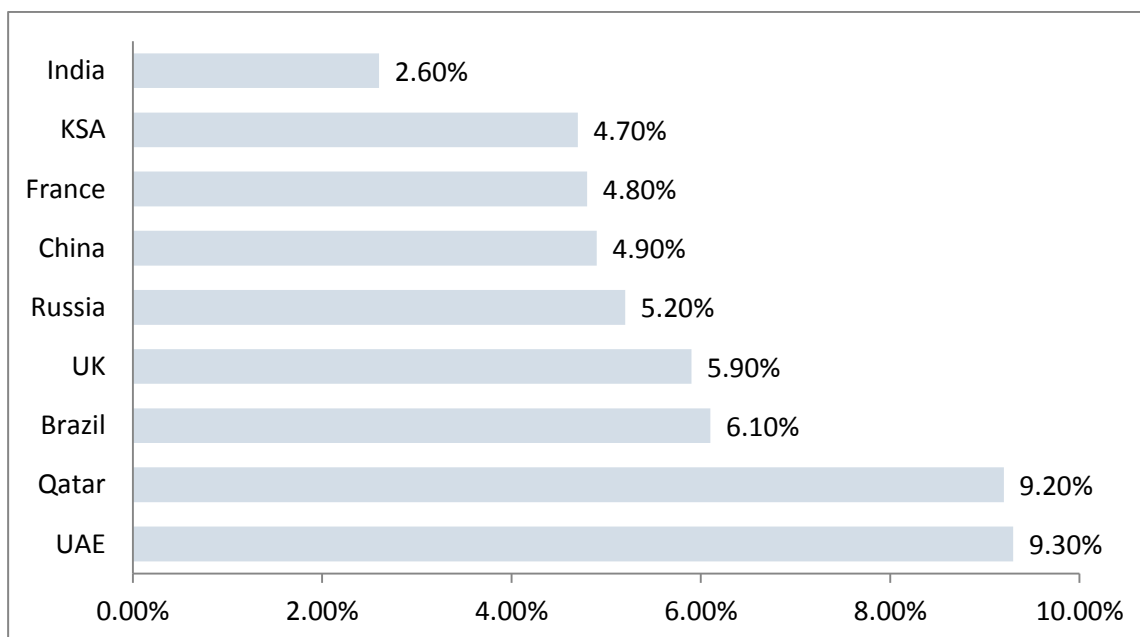
- A surging population with continually increasing per capita income
- Growth in lifestyle-related diseases
- Increasing investment in the healthcare sector
- New regulations for the health insurance sector

### **Key Market Trends**

***Rising healthcare benefit cost*** — Healthcare benefits cost in the GCC is way above compared to Europe, the Middle East, and Africa (EMEA). The GCC has witnessed higher healthcare costs due to more comprehensive insurance coverage. However, employers in the GCC are inventing various procedures to reduce the healthcare cost, including application of data analytics to identify the disease pattern so that early protective measure can be taken.

## Healthcare Cost Trend, 2010-12 (Average CAGR)

Exhibit 2



Source: Alpen Capital

## Cost Drivers, Healthcare

Exhibit 3

Rank	Parameter
1	Introduction of new medical technology
3	Higher profit margin for healthcare providers
4	Limited network facility for cost control
5	Increasing no of cost incurring diseases/cases
6	Limited preventive care measure
7	Economic environment

Source: Frost and Sullivan

**Government focusing on PPP model for the development of Healthcare Sector** — Steady increase in population base along with the rising lifestyle-related and various sorts of critical diseases made the healthcare services costly in the GCC. Moreover, rising expectation of people to have more improved healthcare services has forced the governments to engage the Public-Private Partnership (PPP) model in the healthcare segment. However, this PPP model is at a very nascent stage in the GCC compared to other developed nations. This model will not only reduce the burden of the healthcare cost of the Government, but also help to improve the quality of healthcare services in the bloc.

**Other Trends:**

- Introduction of “asset light model” — Foreign healthcare service providers in the bloc have introduced this type of business model to the healthcare sector. According to the model, the land and the building would be leased by the local people or national investor to the foreign investors to run a hospital. This would help the foreign investors to reach the break-even point within lesser time than the “full asset model” due to generation of high capital cost by the later.
- Emergence of small healthcare clinics with the capacity of 50-75 bed.
- People of the GCC prefer local healthcare services rather than government-funded treatments abroad. Many countries in the GCC are thus focusing on healthcare services. The Kingdom of Saudi Arabia has been constructing “five medical cities”, which primarily will be focusing on specialist treatments, complicated surgeries, and treatment of rare diseases.

**Private Equity Investment in the GCC Healthcare Sector, 2005-2011**

Exhibit 4

Year	Company name	Fund Name	Nation	Business	Value USD Million
2011	NMC Group	Centurion investment	UAE	Hospitals	1,089.0
2011	National Hospital and New National Medical Center – NMC Group	Al Aseel Investment LLC	UAE	Hospitals	NA
2011	Taiba Hospital – Elaj Services	NBK Capital	Kuwait	Hospitals	NA
2011	Mussalla Medical Center	Alchemist Healthcare LLC	UAE	Hospitals	NA
2010	Al Noor Medical Company	Ithmar Capital	UAE	Hospitals, Clinics, and pharmacies	272.2
2010	Pro Vita	Shefa MENA Health Fund	UAE	Specialty Care Services	12



2008	Gulf Healthcare International	Global Opportunistic Fund II	UAE	Diagnostics	30
2007	Planet Pharmacies	Global Buyout Fund L.P. & Global Opportunistic Fund II	UAE	Pharmacy	106.1
2007	Saudi Tadawi Healthcare Company	Abraaj Capital Limited	Saudi Arabia	Pharmacy	214
2006	Al Mashafi Group of Hospitals	Shefa Healthcare Fund	Saudi Arabia	Hospitals	NA
2006	Gulf Healthcare International	Global Opportunistic Fund I	UAE	Diagnostics	31
2005	Elaj Medical Services Company	Global Opportunistic Fund I	Kuwait	Speciality Care Services	23.9
2005	Jebel Ali Hospital	Istithmar World Capital	UAE	General Medical and Surgical Hospital	82

*Source: Alpen capital*

## The KSA Medical Services Market

The KSA is the largest healthcare market in the entire GCC owing to its large population. The healthcare market in the KSA has been growing significantly since 2006 at a CAGR of 14.7 per cent during 2006 to 2011. The ratio of inpatient and outpatient segment in the country was 14.5:85.5 in 2011. The Government of the KSA has allocated around USD 28.8 billion in 2014 budget under healthcare and social welfare services, which is a whopping 8 per cent increase over the last year.

---

## Demographic Indicators, 2011

### Exhibit 5

Estimated population	28.376.355
Crude birth rate/1000 pop	22.9
Population Growth Rate Total	3.19
Saudi	2.21
Non Saudi	5.61
Life expectancy at birth	73.8

### Exhibit 6

Health Resources Indicator (2011)- Per 10,000 population	
Physicians	24.4
Dentists	3.5
Pharmacists	5.1
Nurses	47.4
Allied health personnel	27.8
Hospital beds	20.7
Health care centres	0.74
Private hospital beds rate	4.7

## Mortality Indicator, 2011

### Exhibit 7

Crude Death rate / 1000 pop.	3.9
Infants Mortality Rate / 1000 Saudi live birth	16.5
Under 5 Mortality Rate / 1000 live birth	19.1

Maternal Mortality Rate / 10000 live birth	1.4
--	-----

### The KSA Healthcare Status compared to GCC Average, 2011

Source: The Ministry of Health, the KSA

Exhibit 8

Indicator	The KSA	GCC average	World average
Healthcare Expenditure as % of GDP	3.7	3.3	
Healthcare expenditure per capita (USD)	758	960	

Source: Alpen capital

### Health care Expenditure Indicator, 2010

Exhibit 9

Indicators	Data
Total expenditure on health as % of GDP	4.9
Per capita total expenditure on health at average exchange rate (USD)	714
Per capita government expenditure on health at average exchange rate (USD)	478
General government expenditure on health as % of total health expenditure	67
Out-of-pocket expenditure as % of total health expenditure	17.1

Source: WHO

### Healthcare Expenditure landscape (USD mn)

Exhibit 10

Government Spend	14,667.5	Private Spend	6,616
Ministry of Health	66.7%	Prepaid and risk-pooling plans	18.6%
Social Security Funds	0.0%	Non-profit institutions serving households –NGOs	0.8%

Others	33.3%	Out of pocket payments	58.8%
		Others	21.8%

Source: Alpen Capital

## Market Drivers

The Kingdom of Saudi Arabia accounts for almost 46 per cent of the total GCC healthcare market. Almost all the healthcare practitioners in the country are internationally recognised and also accustomed with western practices and standards.

- ✓ An increasing and ageing population is driving the KSA healthcare market. The KSA has witnessed an increase in life expectancy rate, which has been increased to 75.3 years from 72.6 years during 2000 to 2011.
- ✓ The healthcare market of the KSA is also driven by the various lifestyle diseases including diabetes, cardiovascular ailments, and obesity. Obesity has become the great concern in the country. Almost 36 per cent of the people of the KSA are suffering from the obesity, 10-15 per cent of the children are suffering from Asthma, over 22 per cent are addicted to smoking, while heart diseases are increasing rapidly with an estimated 5.3 per cent growth rate, annually. It is estimated that almost 17 per cent of the Saudis are diabetic, as per 2011 data.
- ✓ The Government of the KSA has also taken bold steps to promote the healthcare sector in the country by attracting more private investments. The private sector participation in healthcare has been increased from 25.3 per cent in 2006 to 31.1 per cent in 2011. Involvement of the private sector is encouraging growth in healthcare services segment in the KSA.

## Market Constraints

The major market challenges are:

- Scarcity of resources
- Ever increasing healthcare expenditure

## Government Initiatives

- ✓ The Government has increased budget allocation under the social welfare and medical services segment to USD 28.8 billion in 2014 from USD 26.7 billion in 2013.

- ✓ During the ninth-plan period, the Government of the KSA has allocated USD 73.04 billion under various healthcare projects including construction of 121 hospitals, 700 primary healthcare centres, and 400 emergency centres.
- ✓ The Ministry of Health of the KSA has signed an agreement with the famous British Medical Journal in 2013. The British Medical Journal has agreed to help the KSA with health learning and research.
- ✓ The KSA Government has introduced a comprehensive online database, which contains information related to medical services in February 2014. Anybody, who is either a patient or a service provider, can access the database.
- ✓ Moreover, the Government also ensures compulsory medical insurance for dependents of expatriates since 2013 as part of its healthcare reform plan.

#### List of Medical Cities in the Kingdom of Saudi Arabia:

Exhibit 11

Medical City	Location / Region	Categories	Capacity of Beds
King Fahd Medical City	Riyadh	Women, Child, Haematology and Oncology, Heart, Cancer, Neuroscience, and Diabetes Centre	1,400
King Faisal Medical City	Southern Region Abha	Cardiology, Neurology, Oncology, Rehabilitation, and Ophthalmology	1,350
King Abdulaziz Medical City	Riyadh	Cardiac and Liver, Dental, Rehabilitation, Paediatrician and the Trauma Care	1,000
King Khalid Medical City	Eastern Region Dammam	Cardiac sciences, Neurosciences, Metabolic and Genetic disease, Oncology, Multi-organ transplantation, Rehabilitation,	1,500

		and Ophthalmology	
King Abdullah Medical City	Mecca	Gynaecology, Obstetrics, Paediatrician and few other rare specialisation	1,500

*Source: Frost and Sullivan*

**King Khalid Medical City** project covers a total area of around 700,000 square metres in Dammam. The estimated project cost is about USD 1.2 billion. The objective of the project is to establish a 1,500-bed hospital, a residential complex, a research centre, and an international academy.

**King Faisal Medical City** project consists of a 1350-bed hospital in the Southern Province. The project cost is approximately USD 1.1 billion.

**Prince Mohammad bin Abdulaziz Medical City** in the Northern Province includes a 1000-bed hospital.

**King Abdullah Medical City** in Mecca with a 1350 bed capacity

**The Healthcare Park in Jeddah** includes a 263-bed tertiary care hospital, a 60-bed hospital for Bone and Joint, and a medical centre with specialisation in diabetes and hypertension department.

## Ongoing healthcare projects in the KSA

Exhibit 12

Project Name	Project Type	Project Value (USD)	Facility Type	Completion Date
The KSA MHE — Qassim University- University Hospital	Standalone	133,000,000	Hospital	2016
The KSAMOH — Al Sharaie Hospital	Standalone	149,327,304	Hospital	2016
KFSHRC — King Faisal Specialist Hospital and Research Centre Expansion	Standalone	900,000,000	Hospital and research centre	2017
The KSAMOH — Al Iman Medical Tower	Standalone	59,000,000	Hospital	Apr 2015
The KSAMOH — Jazan Specialised Hospital	Standalone	192,000,000	Hospital	Apr 2015
The KSA MOH — Al Jumum Hospital	Standalone	60,000,000	Hospital	Dec 2014
The KSAMOH —Khamis Mushayt Hospital	Standalone	67,000,000	Hospital	Dec 2015
The KSA MOH — Al Darb Hospital in Jazan	Standalone	49,400,000	Hospital	Jan 2016
The KSA MOH — Rijal Almaa Hospital	Standalone	54,000,000	Hospital	Jan 2016
The KSA MOH — Baqeeq General Hospital	Standalone	40,000,000	Hospital	Jun 2015
The KSA MOH — Hail Maternity and Children	Standalone	105,000,000	Hospital	Jun 2015

Hospital				
The KSA MOH — Tabuk Maternity and Children Medical Tower	Standalone	104,000,000	Hospital	Jun 2015
The KSA MOH —Hail Specialized Hospital	Standalone	160,000,000	Hospital	Jun 2016
The KSA MOHE — Rabigh General, Hospital Phase 1	Standalone	107,200,000	Hospital	Jun 2017
The KSA MOH — Regional Laboratory, Blood Bank and Poisons centre in Al Jawf	Standalone	15,300,000	Healthcare centre	May 2015
The KSA MOH — Regional Laboratory, Blood Bank and Poisons Centre in Jazan	Standalone	15,400,000	Healthcare Centre	May 2015
The KSA MOH — Hail Hospital	Standalone	75,000,000	Hospital	Q1 2015
The KSA MOHE — Tabuk University, Hospital - Phase 1	Standalone	107,000,000	Hospital	Q1 2016
The KSA MOH — Al Majardah Health Care Centre	Standalone	1,600,000	Healthcare Centre	Q2 2015
The KSA MOH —Aseer Specialized Hospital	Standalone	171,000,000	Hospital	Q2 2015
The KSA MOH — Maternity and Children Medical Tower	Standalone	101,000,000	Hospital	Q2 2015
The KSA MOH —Prince Salman Medical Tower	Standalone	42,000,000	Hospital	Q2 2015



The KSA MOH — Sakaka Maternity and Women Hospital	Standalone	67,000,000	Hospital	Q2 2015
The KSA MOHE — Al Baha University Hospital — Phase 1	Standalone	109,000,000	Hospital	Q2 2015
The KSA MOH — Tabuk 13 Health Care Centres	Standalone	14,127,000	Health Centre	Q3 2015
The KSA MOH — Health Care Centres in Medina - Group 1	Standalone	7,100,000	Healthcare Centre	Q4 2015
The KSA MOH — National centre for Neuroscience, Comprehensive Cancer Centre, Heart Centre Laboratories Buildings	Standalone	317,000,000	Building Bridge	Q4 2015
The KSA MOH — Prince Mohammad Bin Abdulaziz Medical City — Phase 1	Package	154,654,920	Hospital	Q4 2015
The KSA MOHE — Al Hudud Ash Shamaliyah University Hospital – Phase 1	Standalone	107,000,000	Hospital	Q4 2015
The KSA MOH — Jazan Maternity and Women Hospital	Standalone	88,441,841	Hospital	Q4 2016
The KSA MOH — King Saud Surgical Medical Tower	Standalone	157,000,000	Hospital	Q4 2016
The KSA MOH — 3 Health Care Centres — Phase 4	Standalone	3,425,339	Healthcare centre	Sep 2015

*Source: <http://www.skfh.com.sa>*

## Competition

Exhibit 13

Key private participants	Hospitals	Clinics / medical centre	Diagnostics Labs
Al-Mouwasat Medical Services	4	NA	NA
Elaj Group	NA	16	NA
Dallah Healthcare Holding Company	1	NA	NA
Magrabi Hospitals and Centres	9	15	NA
National Medical Care Company	2	NA	NA
Saudi German Hospitals Group	7	NA	NA

Source: Alpen Capital

The King Fahd Medical City in Riyadh is the only tertiary referral centre in the country. The centre has specialised departments including diabetes management, neurosciences, advanced haematology, and cancer centre. The medical city also has a rehabilitation centre and specialist hospitals for women and children. King Khaled Eye Specialist Hospital is also another renowned the largest eye hospital in the country.

Al-Mouwasat Medical Services —The group has presence in the healthcare service domain in the KSA for 30 years. Founded in 1975, the company was incorporated as a privately held one by Mr. Mohammed Sultan Subaie. In Dammam, the company started its first private medical dispensary. On 22<sup>nd</sup> January, 1997 it became a Limited Liability Company. The major activities of the company are ownership, management and operation, and maintenance of hospitals, healthcare centres, medicine warehouses, and pharmacies. It converted to a joint stock company on 4<sup>th</sup> January, 2006 under His Highness Minister Of Commerce and Industry.

Elaj Group — It is an integrated healthcare group of organisations, which is designed and established to provide healthcare services to the locals with global standards. The group was established in 1993. The general director of the company is Dr. Mohammed Fawaz Al Bishri and the CEO is Dr. Mohammed Amin. The specialty departments are:

- 
- Andrology
  - Male infertility
  - Female infertility
  - Dermatology
  - Allergy
  - Spine and joints

Dallah Healthcare Holding Company — Dallah Healthcare Holding Company is a publicly listed company in the KSA, which runs a multi-specialty facility.

Magrabi Hospitals and Centres — Established in 1955 in the KSA, the company is privately held. The main specialty areas are:

- Ophthalmology
- ENT
- Dentistry

National Medical Care Company — Established in 1966 in the KSA and privately held, the company has two big hospitals in Riyadh: Saudi Arabia National Hospital with a capacity of 124 beds and Riyadh Care Hospital with a capacity of 340 beds, respectively. The speciality departments of National hospital are:

- Ophthalmology
- ENT
- Urology
- Cardiology
- Gastroenterology
- Endoscopic therapy
- Plastic surgery
- Dermatology
- Intensive care for adults and children
- Emergency department
- Dental
- Radiology

The clinics of Riyadh Care hospital are:

- Dental centre
- Eye diseases treatment unit
- Dermatology
- The asthma and allergy unit
- Endoscopic therapy
- Specialized clinics

- 
- Medical rehabilitation centre
  - Intensive care unit for heart patients
  - Intensive care unit and medium for children and new born
  - Dialysis centre and operating rooms
  - Physical and respiratory therapy
  - Diagnostic and therapeutic endoscopy
  - Radiology
  - Laboratory
  - Blood bank
  - Physiology units

Saudi German Hospitals Group — One of the largest healthcare providers in the the KSA, the group started its operation in 1988. It is owned by the Batterjee family. At present the group has six super specialty hospitals under its kitty.

### Competitive Analysis: Porter's Five Forces Analysis

Threat of New Entrants: Medium

- Barriers to entry is very high in the KSA healthcare service sector and it is mainly dependent on the type of medical service facilities
- Super specialty hospitals and large hospitals usually have high entry barriers including:
  - They need to recruit highly specialised physicians and medical staff
  - Minimum required capital investment for the super specialty hospital is around USD 133.3 million
  - They need to select a proper location to optimise the coverage
- While on the other hand to build a polyclinics and dispensaries :
  - There is a no hard and fast rules to recruit highly specialised physicians and medical staff
  - Minimum required capital investment is comparatively lower
  - Selecting a locality to open the clinic is not a difficult and mammoth task

Bargaining power of buyers: Low

- Saudi nationals do not have multiple options to choose for healthcare facility in the Kingdom as in developed economies.
- In addition to that, the highly serious diseases have really very few options to diagnose with.
- Moreover, customers' bargaining power also depends on the structure of insurance policies they have.
- Also, limited availability of highly qualified physicians reduce the bargaining power of the consumers

---

Bargaining power of Suppliers: Medium

Suppliers are basically two types, including:

- Recruitment agencies which provide physicians and medical staff
- Manufacturer and suppliers of medical equipment
- Negotiation power of both the staffing or recruitment agencies and the medical equipment suppliers are limited

Threat of substitutes: Very Low

Presence of substitute service is very low in the KSA.

- Skilled physician is scarce in the country and, hence, it is very costly to substitute
- Medical services are almost similar to each other and can be substituted as per the location and insurance facility. However, polyclinics can be considered as a substitute for the low-level hospitals

Competitive rivalry: Low

- The major factors determining the competitiveness of the medical service providers are:
  - ✓ Pricing
  - ✓ Brand Name
  - ✓ Quality of medical facility
  - ✓ Geographical presence
- Customers with mandatory or limited health insurance (generally the KSA Government employees) usually have budget constraint
- Customers with good insurance coverage are usually more keen on branded hospitals and other facilities
- However, the availability of high-end hospitals in the KSA is very limited and, hence, the competition in the high-end healthcare facility segment is very low. However, it is medium amongst the comparatively low-end healthcare service providers.

Barriers to entry for foreign participants:

- To obtain an approval to open a new medical facility, whether it is a super specialty hospital, general or a small hospital, is not that an easy task.
- Establish a brand name and brand awareness amongst people is also a time-consuming task.

---

## SWOT analysis

### Strength:

- The KSA is the largest healthcare service market in the GCC
- The KSA Government is continuously focusing on the education and healthcare sectors of the country
  - The Government has allocated a whopping amount of USD 42.1 billion for the healthcare and social welfare sector under 2015 budget
- The funding will be spent on three new hospitals, three blood banks, and many primary care and specialist clinics across the country, as well as expansion and upgrading of existing facilities and associated training

### Weakness:

- The main weakness of the KSA healthcare service sector is that it is mainly operated by the Government
- Although, the Government has promoted private participation for the sector, it is still at a nascent stage
- Private healthcare providers are mainly located in three regions of the KSA — Riyadh, Mecca and the Eastern Province — and it covers around 60 per cent of the local population

### Opportunity:

- The healthcare service sector of the KSA has witnessed tremendous growth during last couple of years, owing to an increasing population growth along with the increase in lifestyle diseases
- The Government is providing great support to the sector in the form of a huge amount of subsidy
- The KSA was allocated USD 28.8 billion for the healthcare sector in the 2014 budget, which was increased to USD 42.1 billion in the 2015 budget
- The KSA Government has announced to open around 150 new hospitals over the next four years at a rate of about 10 every three months
- The Government is continuously encouraging private sector participation in the sector through several means, including application of strategic initiatives in order to drive the industry to the desired levels and decrease the financial burden on the public sector

### Threat:

- The healthcare service providers are largely dependent on the expatriate population in terms of the doctors and nurses. The country is suffering from a scarcity of skilled resources

- 
- Sometimes, quality of the healthcare service provided by the Government institutions is not on par with the global standards. Hence, Saudi nationals often prefer to go abroad for healthcare facilities over the facility provided in the country

## Recommendations and Conclusions

### Attractiveness of the Healthcare Services Sector

KSA is the largest healthcare market in GCC owing to various factors including steady increase in population growth, changing lifestyle which leads to various life style diseases such as obesity, diabetes, and cardiovascular diseases as well as cancer. The Government of the country is also supporting the sector by increasing the budget allocation under the healthcare and social welfare services to around USD 28.8 billion up by 8% over the last year which also makes the sector attractive for foreign investment.

The major attractive areas of the KSA healthcare service sector are:

#### **Tertiary care:**

Lack of quality of services coupled with the shortages of bed availability are generating opportunity for the multidisciplinary hospitals specialized centres who deal with the complex segment of the healthcare service including oncology and organ transplantation.

#### **Secondary Care:**

Increasing life style diseases also create the opportunity for specialized hospitals with speciality segment like plastic surgery, dermatology, cardiology and diabetes.

#### **E-health:**

Increasing number of private players in the healthcare sector probably can generate difficulty. To manage this difficulty the ministry of health is planning to establish a national electronic records system for healthcare which in turn increase the demand for telemedicine specialists in the country.

### Attractiveness for Japanese companies

The KSA medical services sector is primarily dominated by the Government. However, currently, the Government has realised the importance of the PPP model to reduce the huge healthcare cost burden from the public sector, which is highly subsidised. However, to build a super specialty hospital, requires a huge capital investment as well as a lengthy process of development. Hence, we can suggest that Japanese companies should start its

---

operation in the KSA healthcare sector in the clinic and diagnostic lab business, which is comparatively less time-consuming and requires much lesser capital investment.

### **Recommendations on Location and Branches**

Private healthcare service facilities are mainly concentrated in the three regions: Riyadh, Makkah, and the Eastern Province. Any new participant entering this market can look at entering the other regions such as Jeddah, Western Province, etc.

It is recommended that to open a branch office and laboratory in any of the key locations like Riyadh, Jeddah or Western Province and have few collection centres (five to six) across major cities of the country including Riyadh, Makkah, Jeddah, Easter Province, Al Khobar, etc. It is also essential to forge tie-ups with the big hospitals of the country.

### **Recommendations on Advertising / Marketing**

All three modes of advertising, that is, print, digital, and social media, are popular in the country (the top channels include: Eysh Elly, Sa7i, Al-Timsah, and La-Yikthar). Almost all the big hospitals have Facebook and LinkedIn accounts. In addition to that, it is imperative to form associations with major hospitals and healthcare insurance companies of the country.

### **Recommendations on Business Model**

The most popular business model to enter into the KSA healthcare service sector for the foreign companies is the partnership model. Another business model could be to have a local supplier. Ex-SRL Diagnostics is operating their business in the KSA through Dar Al Zahrawi, who is a leading laboratory and hospital instrumentation supplier in the country.



---

## Chapter 11: IT Services Sector

### Global IT Services Industry

The global IT service industry is currently witnessing stupendous growth due to increasing IT spending by various sectors including healthcare, retail, and transportation amongst others. The global IT services market is predicted to touch USD 1,147 billion by 2017 with a CAGR of more than 5 per cent over 2012 to 2017 time period.

The industry consists of various services related to business application and technical expertise. IT services enable a company to create, process, manage, and access information. IT services are primarily segregated into two broad heads namely:

- a) Product support services that consist of hardware and software maintenance
- b) Professional services that consist of IT consulting, development, and integration

North America represents almost 42 per cent of the highly fragmented global IT services market. Emerging markets including India, China, Vietnam, and the Philippines are driving the growth of the IT services industry owing to low labour cost and skilled talent pools. It is likely that the APAC region will lead the industry during 2012-2017. Favourable government reforms and initiatives are expected to provide a positive environment for the increase in investment on IT services. Moreover, introduction of cloud computing is expected to change the nature of the industry by producing new opportunities for IT vendors globally. It is also expected that cloud will provide ample opportunities to new players to enter into the small and medium business sectors.

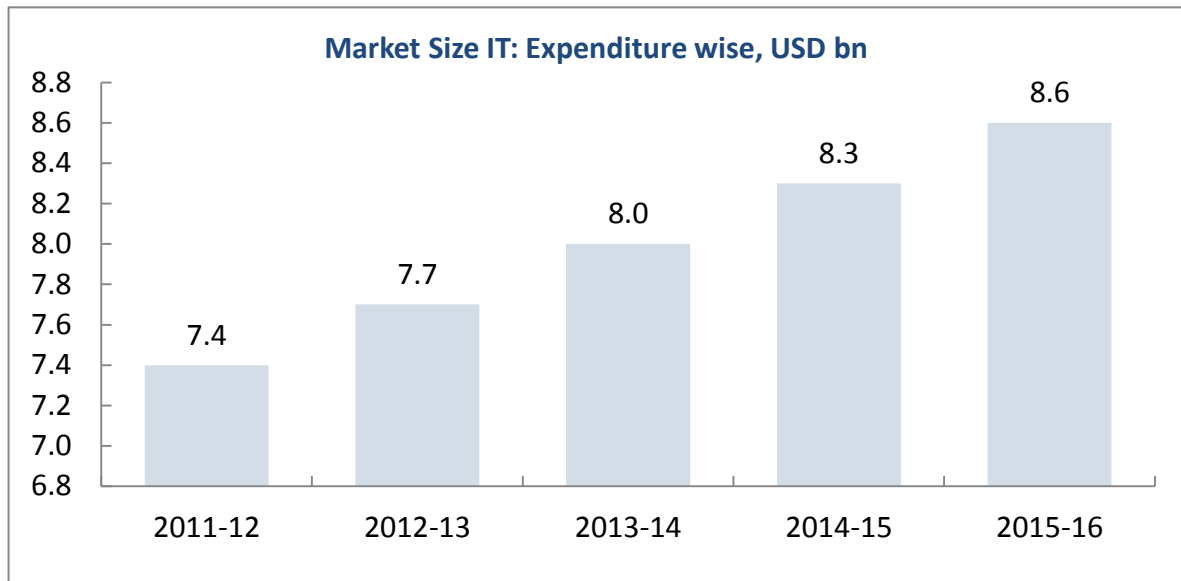
Highly volatile exchange rates, reduced talent pool, and high labour costs are some of the major challenges that the global IT services industry is facing currently.

Growing demand for systems, software, and services, as well as IT spending by governments, and the banking and financial sectors is driving the IT services market globally. The IT services industry is highly correlated with the business cycle since it is basically project dependant industry.

### The Middle East IT industry

IT spending in the Middle East was USD 192.9 billion in 2013, an increase by 5.5 per cent from 2012 primarily because of change in technology in various fields of the IT industry including hardware, software, telecom, and IT services market.

Exhibit 1



Source: Gartner

Factors fuelling the IT services market in the Middle East include strong IT demand from two major verticals such as banking and the government sector. Moreover, the rising youth population will drive the demand for new technology and hence IT services.

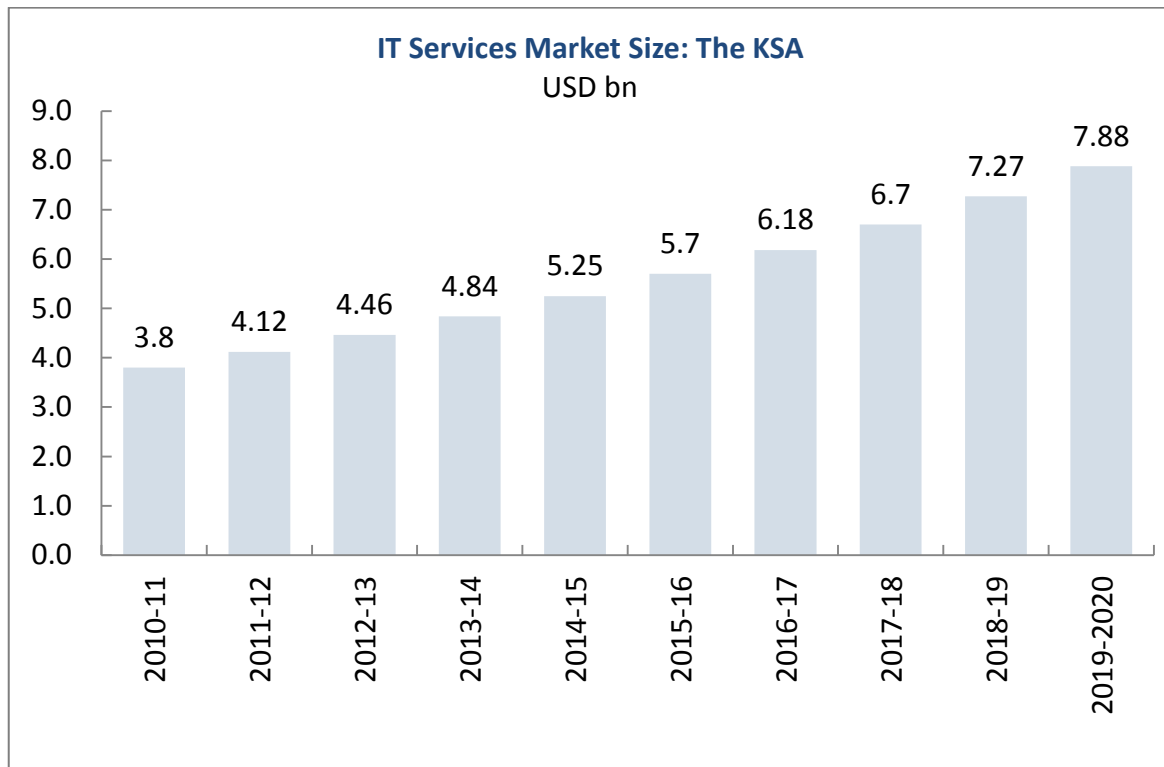
In 2014, the healthcare segment in the Middle East spent around USD 2.8 billion on IT products and services including IT personnel, hardware, software, external IT services, and telecommunications. Expenditure on software grew by 7.1 per cent from 2012. Primarily security, storage management, and customer relationship management markets are driving the software market in the Middle East. The new trend in the software services market including big data, enterprise content management, data integration tools, and data quality tools are likely to attract huge investments in 2015. The telecom services market remained the largest spending market in the Middle East and accounted for about 77 per cent of the total IT spending in the region in 2013. The two major segments of the telecom services market including mobile voice services and mobile data services were around USD 88.5 billion and USD 23.2 billion respectively in 2013.

The IT services industry was about USD 314 million in 2014, up from USD 299 million in 2013 representing an annual growth rate of 7.6 per cent.

## The KSA IT Market

The IT market in the KSA is considered to be the largest market in the GCC and valued at around USD 3.8 billion in 2011 and likely to touch USD 5.7 billion by 2016, at a CAGR of 8.45 per cent per annum.

Exhibit 2








Source: Frost and Sullivan

A comparatively stable political economy compared to other GCC countries, drives the IT services market in the KSA.

## Growth Drivers

Exhibit 3


Factors	Justification	Impact
Strong demand of tablets in growing young population	Tech savvy youth addicted to smart phones and tablets which in turn drives the market for IT services in the KSA	
Increasing per capita income	In 2013, per capita GDP at current prices was USD 24953.1 and is expected to grow at an average of 3.95 per cent per annum. Growing per capita incomes increase the purchasing power of the people and hence demand for more PCs, tablets, and overall more technology friendly economy which results in increasing demand for IT services in the KSA.	




High  Medium  Low 

Source: Frost and Sullivan

## Market Challenges

Exhibit 3

Factors	Justification	Impact
Scarcity of skilled labour	The country is highly dependent on the expatriate population for software service personnel. It is lagging behind in terms of generating skilled technical employees internally.	

High  Medium  Low 

Source: Frost and Sullivan

## Competition

Entry to the IT services market in the region is comparatively easy for foreign players. Some of the foreign players in the market are:

- IBM
- Wipro

- 
- Microsoft
  - SAP
  - Oracle
  - Accenture

The big domestic players are:

- Maham Al-Khaleej Co. Ltd (MATCO)
- Arabic Computer System (ACS)
- EJADA
- Saudi Telecom (STC)
- Integrated Telecom Company (ITC)

IBM: The Saudi Ministry of Education has chosen IBM and Etihad Etisalat (Mobily) to form an alliance to enhance information security throughout its organization. IBM and Mobily will use Data Security Services to provide a detailed assessment of the current scenario of data protection capabilities at the Ministry. It is expected that this will help to identify sensitive data and hence ensure the protection of that data. In addition, Mobily and IBM will also work on assessing the amount of data security requirement of the Ministry to build a universal data protection strategy to minimize the risk of business exposure.

Wipro: Wipro started its operations in the Middle East in the year 2001. It entered the region in partnership with the well-known Dal Al Riyadh in Al Khobar. The joint venture Wipro Arabia Limited (WAL) has operated its business in the region through various offices in Al Khobar, Riyadh, and Jeddah. In addition, Wipro also owns a Development Centre situated in Al Khobar, which is used for customer support in the KSA and to train local talent. Almost 40 per cent of employees are locals in WAL.

The major services of the company are:

- Analytics
- Application
- Business Process
- Cloud
- Consulting
- Mobility and many more

WAL entered into a partnership in the year 2014, with the renowned KSA-based Saudi Electricity Company (SEC). SEC is the largest power utility company in the Middle East and currently serves around 5 million customers across the KSA. According to this tie-up, Wipro is entitled to implement and rollout plant maintenance and project system functionality of the SAP® ERP application for SEC's distribution business line across the KSA.

---

After the implementation procedure is completed, SEC will set up an integrated system that offers centralised and standardised processes across its plants. The entire process will help to confirm uptime of distribution networks, control expenditure, and utilise assets optimally.

Microsoft: Microsoft Arabia has three office locations in the KSA in Khobar, Jeddah, and Riyadh.

The major services of the company are:

- Outlook.com
- OneDrive
- Skype
- MSN Arabia
- Bing

Microsoft Arabia has introduced a training programme 'Cloud Academy' in the KSA to develop and improve skill sets of IT companies in selling and deploying cloud-based IT solutions. Microsoft Arabia hopes to strengthen its presence and also encourage domestic IT companies to incorporate state-of-the-art technology trends in their day-to-day activities.

The major local IT services companies are:

MATCO: Maham Al-Khaleej Co. Ltd (MATCO) was established in 1998 in the KSA. The main objective was to fill the demand supply gap in the Information and Communication Technology (ICT) marketplace through architected solutions, packaged professional services, and total turnkey projects execution.

MATCO has three divisions including:

- Information Technology
- Communications
- Security Systems

Arabic Computer System (ACS): The company was founded in 1984 in the KSA. It is part of the famous multi-national National Technology Group, which has a presence across the Middle East, India, Sri Lanka, UK, and the USA.

Main services the company offers:

- Systems Integration services: IT infrastructure building through various products and technologies
- Microsoft practice: Specialised services related to Microsoft technologies
- Professional services: Development of custom made packaged software application, implementation, and integration of that software application

- 
- Managed services: Include infrastructure support services and maintenance services
  - Staffing services: Offers skilled IT professionals on contract basis
  - Data Centre security services: Provides updated network security solutions made for data centres

ICT as well as IT services are the two crucial components to develop a knowledge economy.

### Competitive Analysis: Porter's five forces

Threat of new entrant: High

The Government of the KSA has realized the urgent need for developing the information and communication technology market as well as IT services market which is a comparatively new and emerging market. The market has huge scope and opportunity. Since it is mostly untapped, opportunities for new entrants as well as for existing ones is very high.

Bargaining power of buyers: Medium

Since there are not many players in the market, buyers have limited options to choose from.

Bargaining power of suppliers: Medium

The IT services market is largely dependent on expatriate skilled labour. So, the bargaining power of suppliers is medium.

Threat of substitutes: High

IT services companies are continuously innovating new technically improved services to replace the existing services.

Competitive rivalry: Medium

The KSA is the largest IT market in the GCC. It offers strong growth opportunities to IT solution providers across multiple industry verticals. The country's strong macroeconomic growth along with favourable economic diversification plans is driving growth for the private sector as well as IT services industry. It is expected that global IT firms that have a significant presence in the KSA will benefit most from this opportunity. Global IT firms have already taken advantage of this opportunity by establishing their presence mainly through partnerships with local system integrators. A few Indian IT giants and global IT giants including IBM, Wipro, Tech Mahindra, and Microsoft among others have already made progress in the country currently and continue to target the enterprise market opportunity. Saudi Electricity Company (SEC) awarded Wipro a contract in the year 2014 to provide two major SAP ERP applications projects which will improve SEC's service

---

delivery for its huge customer base of around 5 million. Wipro was awarded a joint contact with CISCO to introduce three smart hospitals in the KSA.

### Barriers to entry for foreign players

The KSA is a member of the World Trade Organisation (WTO) from 2005 and has opened its domestic market to foreign investment since then. The country has also allowed 100 per cent foreign ownership of local establishments. However, certain barriers exist for foreign investors entering the market:

- A company wanting to enter the KSA information technology services market has to obtain certain licences and certificates. It is illegal for an investor outside the KSA to do business without a trade license.
- Foreign investors need to procure the foreign investment licence from the Saudi Arabian General Investment Authority ("SAGIA")
- They also need to collect a commercial registration certificate from the Ministry of Commerce and Industry.

### SWOT analysis

#### Strength:

- The ICT market of the KSA is the biggest market in the Middle East both in terms of value and volume of spending. It is estimated that the KSA accounts for almost 70 per cent of the total ICT market of the Middle East
- Spending on ICT services was around USD 25 billion in 2012 out of which spending on information technology was around 30 per cent of the total volume of expenditure, primarily focused on spending on hardware and IT services

#### Weakness:

- Lack of Government incentives to attract more foreign investment into this sector
- IT infrastructure of the country is not comparable to global standards
- Scarcity of skilled resources- The KSA mainly depends on skilled expatriates for its IT workforce

#### Opportunity:

- The IT services market is growing at a steady rate by overcoming obstacles of the industry gradually
- Introduction to cloud computing has changed the perception of consumers and enterprises regarding the data sharing methodology
- Mobile internet is a fast growing area. Increasing use of smart phones, tablets, and ultrabooks are opening new dimensions of the IT services market

#### Threat:

- Cultural variation is a great barrier to development of the IT services industry in the country



- 
- Lack of proper technological education, scarcity of skilled labour, along with limited support from local vendors could be a threat for the IT services industry

## Recommendations and Conclusions

### Attractiveness of the IT Services Sector to Foreign Investment

The IT market in the KSA is considered the largest market in the GCC and valued at around USD 3.8 billion in 2011. It is likely to touch USD 5.7 billion by 2016 at a CAGR of 8.45 per cent per annum.

A comparatively stable political economy compared to other GCC countries drives the IT services market.

The ICT market of the KSA is the biggest market in the Middle East both in terms of value and volume of spending. It is estimated that the KSA accounts for almost 70 per cent of the total ICT market of the Middle East. Spending on ICT services was around USD 25 billion in 2012 out of which spending on information technology was around 30 per cent of the total volume of expenditure, primarily focused on hardware and IT services.

### Recommendations on the Business Model

The KSA is one of the most promising and emerging markets worldwide, but with high barriers to entry. To enter the KSA market it is advisable to tie up with the local vendor

A foreign investor looking to enter the IT services market in the KSA should have an understanding of

- The market dynamics in terms of supply chain, major players, and internal balances
- The unique cultural consideration of the country

The KSA's IT services market has huge potential for internal as well as foreign investors. Although the market has tremendous opportunity, to establish a business in this segment is time consuming and difficult. A foreign investor looking to enter is advised to build a referral in the KSA. **Without any strong reference it is almost impossible to enter into the KSA IT services market.**

If any foreign company is looking to enter into the IT services market it is imperative to obtain a good knowledge about the country in terms of cultural considerations, economic background including per capita GDP, net trade balance, Government initiatives related to the particular sector, banking sector structure, loan availability, etc. If the company wants to tie up with some KSA nationals or companies, then it needs to investigate thoroughly.

---

**The most popular business model to enter into the KSA IT services sector for foreign companies is the partnership model.** If we analyse the three major foreign IT service companies in the country we see:

- IBM is operating its business in the free trade zone of the country as a Limited Liability Company
- Wipro started its business in the country in partnership with the popular KSA business group Dal Al Riyadh. It opened its first office in Al Khobar as a joint venture company

### **Recommendations on Location and Branches**

Jeddah, Riyadh, and Al Khobar are the three main business regions of the country. Hence, it can be suggested that foreign firms should choose any one of the cities (Jeddah, Riyadh, and Al Khobar) to open their first office. Currently, majority of the foreign investors in the IT services sector have maximum two-four branches in the KSA. For a new entrant it is thus recommended to go with a “one at a time” strategy. Timely delivery and quality of work are the two major components that the KSA is looking for and is important for a new entrant in the IT services sector.

---

## Chapter 12: Housing and Construction Services Sector

### Global Housing Industry

The global housing market is currently witnessing a marvellous growth. The Middle East is leading the market followed by Europe and the Asia Pacific. According to report by the IMF, 33 out of 52 countries in the IMF's Global House Price Index have experienced a steep rise in house prices even when the economy has witnessed a slowdown. It is estimated that the housing price has risen by an average annual growth rate of 5 per cent in the US for the last couple of years. The most promising housing markets are the Philippines, Hong Kong, and China respectively with an average growth rate of 9 per cent per annum. The market is booming for various factors including increasing population, government initiative, oil booming economy, increasing per capita income of people, and rapid urbanisation amongst others.

### The GCC Housing Construction Industry

A steadily growing population along with an increasing per capita income and rapidly growing urbanisation are driving the housing industry in the GCC. Apart from Bahrain and Oman, it is expected, that the GCC will witness a strong economic growth in the coming six years due to planned investments by the governments across the region.

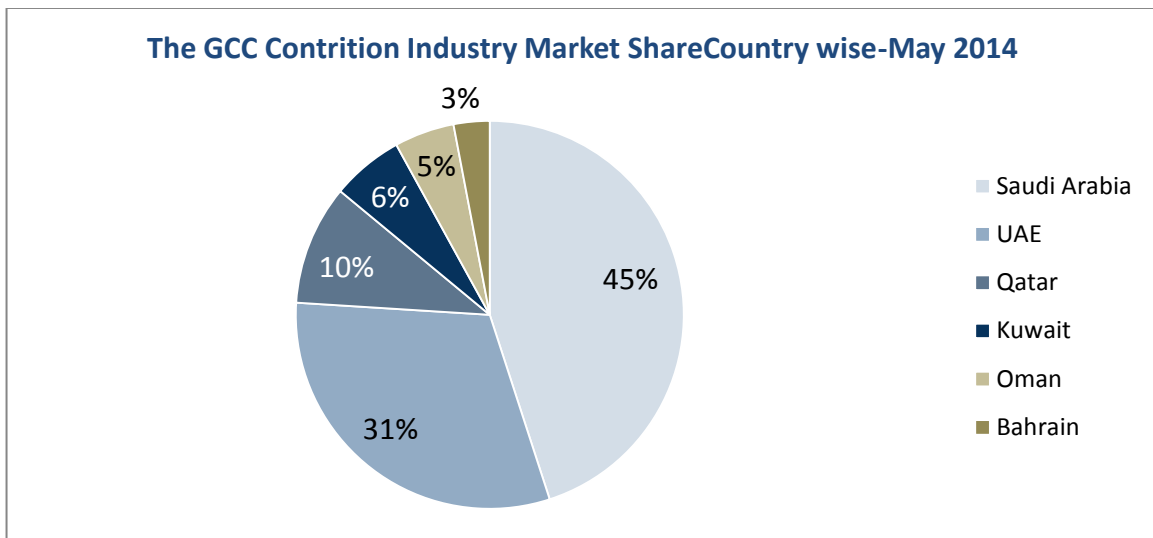
**Exhibit 1 Key focus areas of the GCC countries**

Countries in the GCC	Budget surplus / deficit	Key focus areas
Bahrain	-4.3%	Housing, Infrastructure
Kuwait	25.2%	Housing, Healthcare
The KSA	6.8%	Religious and Business Tourism, Infrastructure, Education, Diversification, Industrialisation
Oman	-0.8%	Tourism, Infrastructure, Education
Qatar	7.6%	Infrastructure, Sports and Business Tourism, Education, and Healthcare
The UAE	9.1%	Infrastructure, Retail, and Business Tourism

*Source: IMF (2014) and various government budgets*

The KSA is the largest construction market in the GCC followed by the UAE and Qatar.

**Exhibit 2**

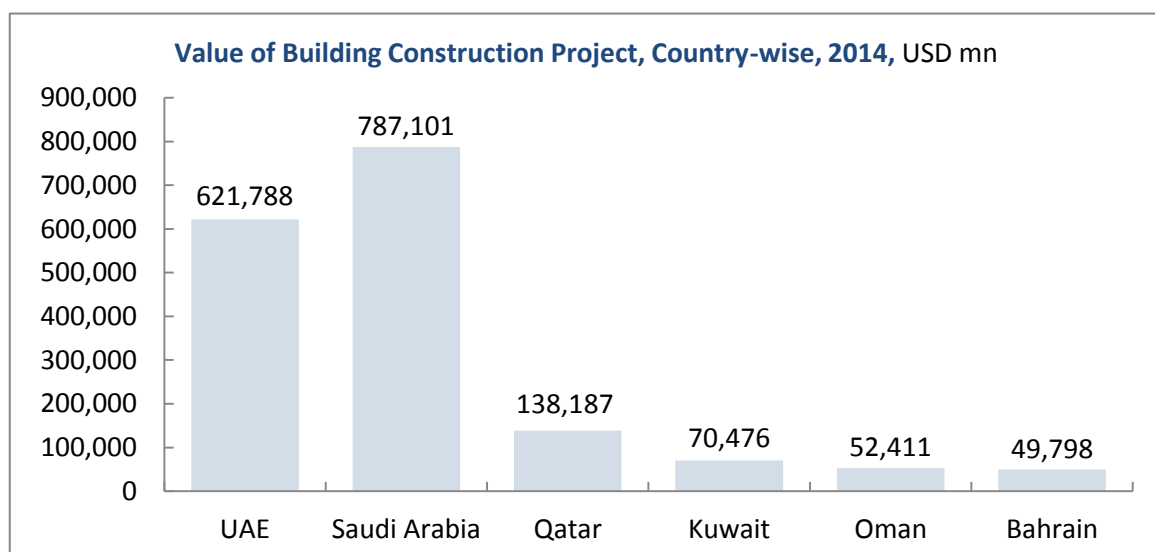


Source: IMF (2014) and various government budgets

The construction industries in the UAE and Qatar are likely to witness a tremendous growth due to two mega events, that is, World Expo and World Cup FIFA, happening in these two countries in 2020 and 2022, respectively. In addition, increasing demand from the population of the region in terms of housing, office, and retail spaces are also driving the industry. The booming tourism and hospitality industry is also said to have positive impact on this industry.

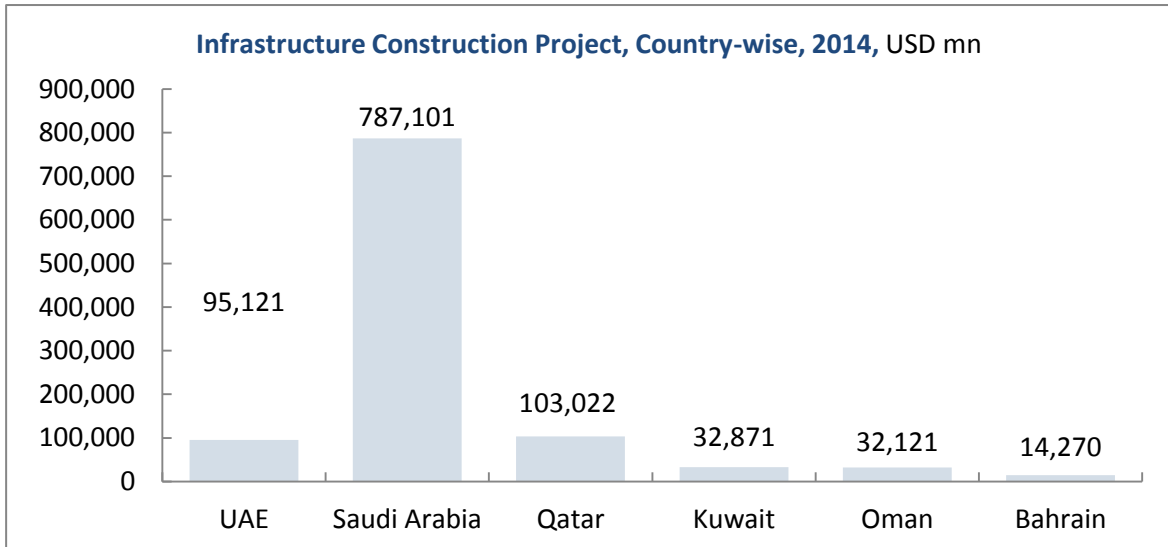
Currently, there a lot of ongoing projects in the construction sector in the GCC.

**Exhibit 3**



Source: Frost and Sullivan

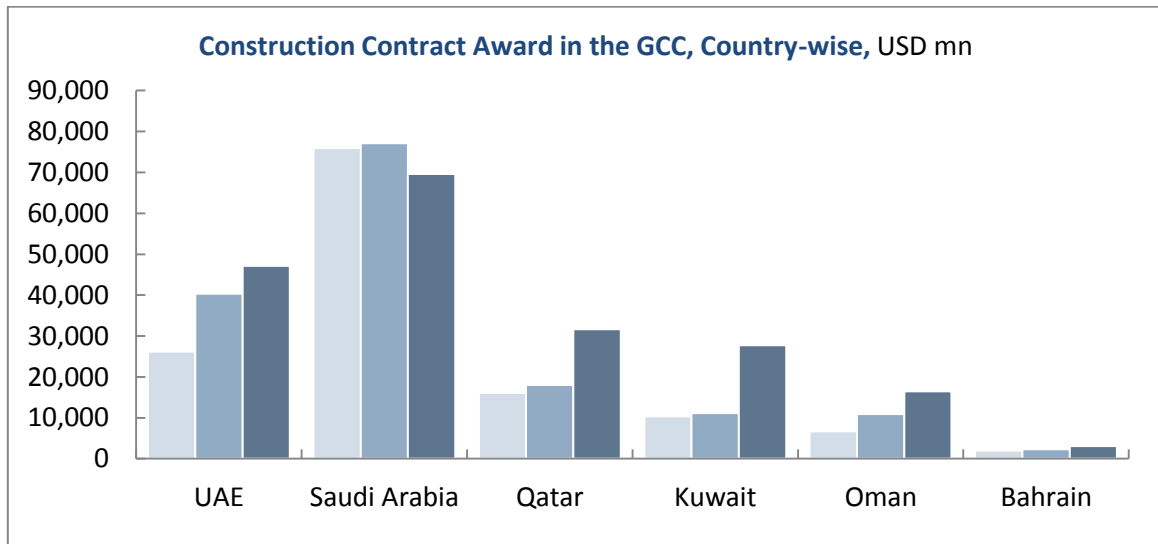
**Exhibit 4**



Source: Frost and Sullivan

Governments in the GCC have allocated a huge chunk of budget for the purpose of infrastructure development. The KSA and the UAE are the two most preferred countries for investment in the real estate sector due to favourable government policy and a healthy economic scenario. The estimated total project cost across the GCC was USD 159.87 billion in 2013, while it is expected to be around USD 195.67 billion in 2014, a 22.39 per cent increase from last year.

**Exhibit 5**



Source: Frost and Sullivan

---

The KSA is the leading country in terms value of the contract awarded, followed by the UAE and Qatar.

### Market Drivers: The GCC

The housing construction industry in the bloc is likely to see a rapid growth, owing to the following:

- ✓ Upgrades, expansion and huge infrastructure development projects are currently ongoing in the KSA
- ✓ World Expo 2020-related infrastructure developments are currently undergoing in the UAE, which is worth of USD 9 billion. A trade centre is proposed to be built in Jebel Ali for the occasion. The estimated cost of building the Dubai Expo headquarters is around USD 4 billion. The headquarters will consist of a 150-hectare Expo area, and a surrounding residential, hospitality, and logistics zone.
- ✓ FIFA World Cup related infrastructure development in Qatar.

### Challenges / Constraints: The GCC

The major challenges the industry is currently facing are:

- Scarcity of resource: Since almost all the countries of the bloc are undergoing huge infrastructural development and upgrades, there is a huge demand for skilled labour and raw material. Thus, labour and raw material cost are becoming expensive in GCC.
- Use of expatriate labour is becoming a huge concern. On one hand, the bloc is facing employment demand from the local people and, on the other hand, it is facing the challenge of international standardisation and practice. Recently, countries like the KSA and Oman has made expatriate employment law stricter to encourage local employment over expatriate employment. In Oman, an expatriate cannot switch between jobs before completion of one project.

### The KSA Housing Construction Industry

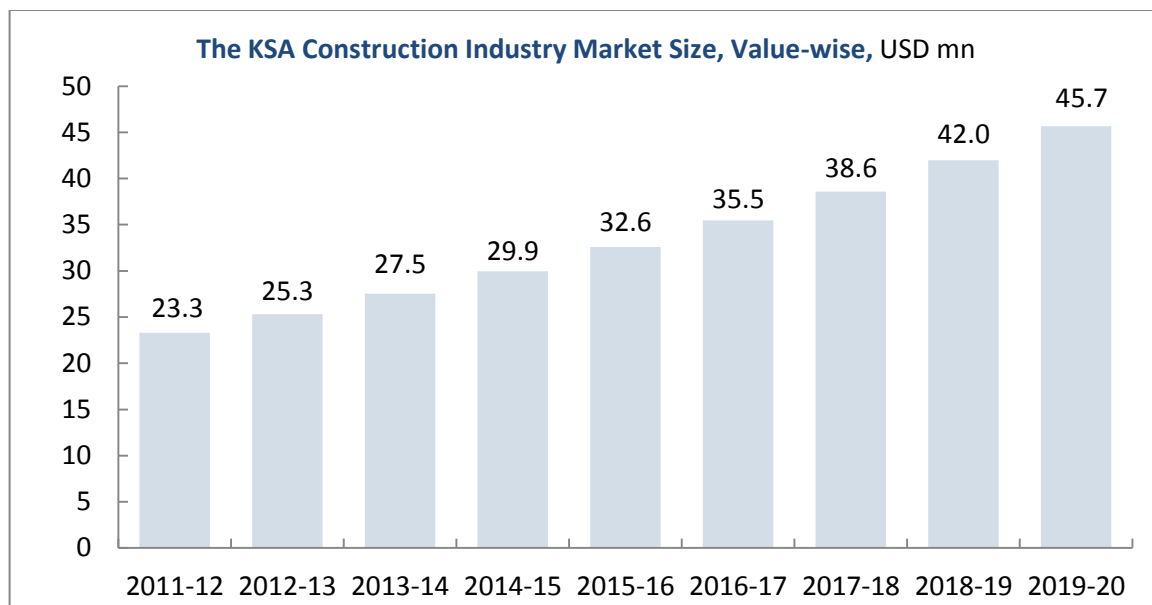
The Government is playing a very important role in the development of the Kingdom of Saudi Arabia. The country has been undergoing massive upgrades of infrastructure in terms of airports, ports, railways, and housing amongst others. The country is in the process of constructing the world's tallest tower in Jeddah. The favourable Government policies along with a growing economy are also driving the investment in the social housing programme.

---

## Market Overview

The housing sector is considered to be the key building block for an economic development. The construction industry itself is a labour-intensive and has a vast multiplier effect in terms of infrastructural development including roads, electricity, sewerage, and water. Moreover, house possession is considered to be the most secured collateral against market fluctuations and market debt or borrowing and is believed to return a positive amount in the long run. A steadily growing population along with the willingness to reduce the housing shortage is primarily driving the housing construction industry in the KSA. The overall construction industry in the KSA is witnessing an average CAGR of 10.06 per cent from 2009 to 2013. The industry is likely to reach USD 46 billion by 2020 at a CAGR of around 9 per cent.

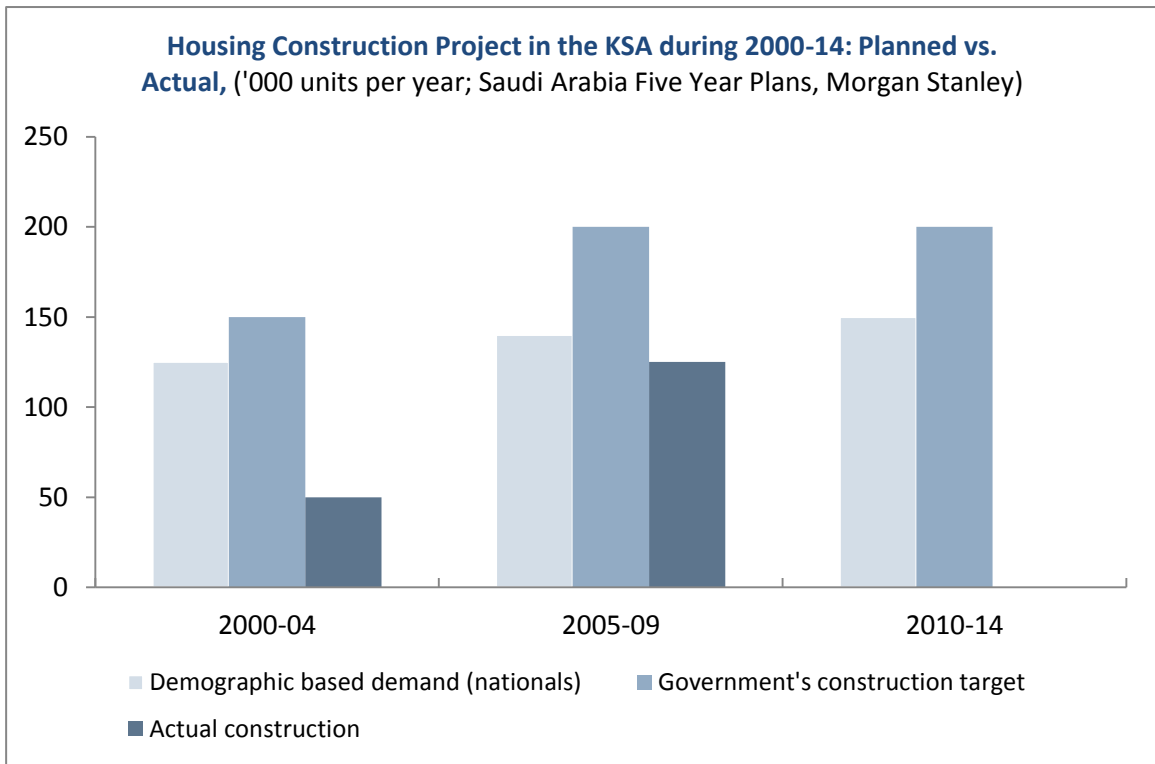
Exhibit 6



Source: Frost and Sullivan

However, the developers are mainly focusing on the high-end projects compared to low or medium range residential projects. The KSA Government has also planned to build a large residential complex with 300 plus unit capacity for the expatriate population of the country. A housing complex worth USD 133333.3-200000 is more in demand.

Exhibit 6



Source: Frost and Sullivan

Despite being the largest market in the GCC and growing at a steady pace, the KSA real estate market is underdeveloped compared to other developed countries. Only 30 per cent of Saudi population have their own house; only Saudi nationals can have freehold ownership by the Saudi laws, while foreigners are allowed to buy only leasehold property. The major feature of the market is that the demand is primarily generated by the KSA nationals and not by the foreigners. However, migration is another important driver for generating demand for house construction. The KSA rental market is basically segregated into two broad heads: high income expatriates and religious tourists. Domestic migration also plays an important role to drive the market in terms of rapid urbanisation.



## On-going and Upcoming Big Projects

Exhibit 7




Project Name	Region	Contractor	Project Value USD	Project Type	Contract Type
Aldara Hospital	Riyadh	JV of the UAE and Greek Company	107.7 mn	Hospital	Six storey, 107,000-square metre hospital. The completion date would be early 2015.
King Khalid International Airport, Terminal 5	Riyadh	JV of Turkish and Saudi	0.4 bn	Terminal 5 building	An expansion of the King Khalid International Airport.
Jeddah Corniche	Jeddah	Previously, the Amias Real Estate Group. Currently, Lamar Investment and Real Estate Development Company awarded the project to a JV company	0.5 bn	65 stories Hotel	Build two towers of 57 and 49 storeys.
King Fahad Medical City Hospital	Riyadh	Dubai's Drake & Scull will partner with Habtoor Leighton Specon	Contract cost is 139.2 mn. The total project cost is 0.6 bn	Medical city	Hospital within a medical city.
Abraj Kudai Development	Mecca	Saudi Binladin Group	3.5 bn	Mixed used development.	Construction of 12 towers of 30-45 storeys each. The complex will consist a bus station, residential apartments, hotel rooms, a mall, restaurants, a conference centre, and a parking area
King Abdullah Financial District	NA	NA	300 mn	Science	Science centre including an

Museum				centre	Aquarium
Construction of 1,200 Housing Units in Jeddah	Jeddah	Anan Iskan	147 mn	Residential Development	1200 housing units in Jeddah city
Construction of 5,000 Villas	Eastern Province	Arabtec Construction LLC	1.35 bn	Residential Development	5,000 Villas and site preparation




*Source: Frost and Sullivan*

## Growth Drivers

Exhibit 8


Factors	Justification	Impact
Increasing population	The KSA is witnessing a sustainable amount of growth in population base. Currently, there are 29.99 mn people in the KSA as per 2013 census data by the Central Department of Statistics & Information. The estimated population growth in the KSA is around 2.7 per cent per annum.	
Increasing per capita income as well as disposable income	According to the Central Department of Statistics & Information, per capita GDP at current prices in 2013 was USD 24953.1. The estimated GDP growth rate at constant prices is 3.95 per cent.	
House shortage	Only 30 per cent of Saudi nationals have their own house. According to the Central Department of Statistics & Information, population density in the KSA in 2013 was 15 sq. m per person. Currently, there is deficiency of house of an estimated amount of 283,000 in Jeddah. It is also likely that the KSA will witness a huge shortfall in housing of 2 million by 2015. <i>Source: Frost and Sullivan</i>	

### Growth in the tourism Sector

High  Medium  Low 

## Major Market Constraints / Challenges

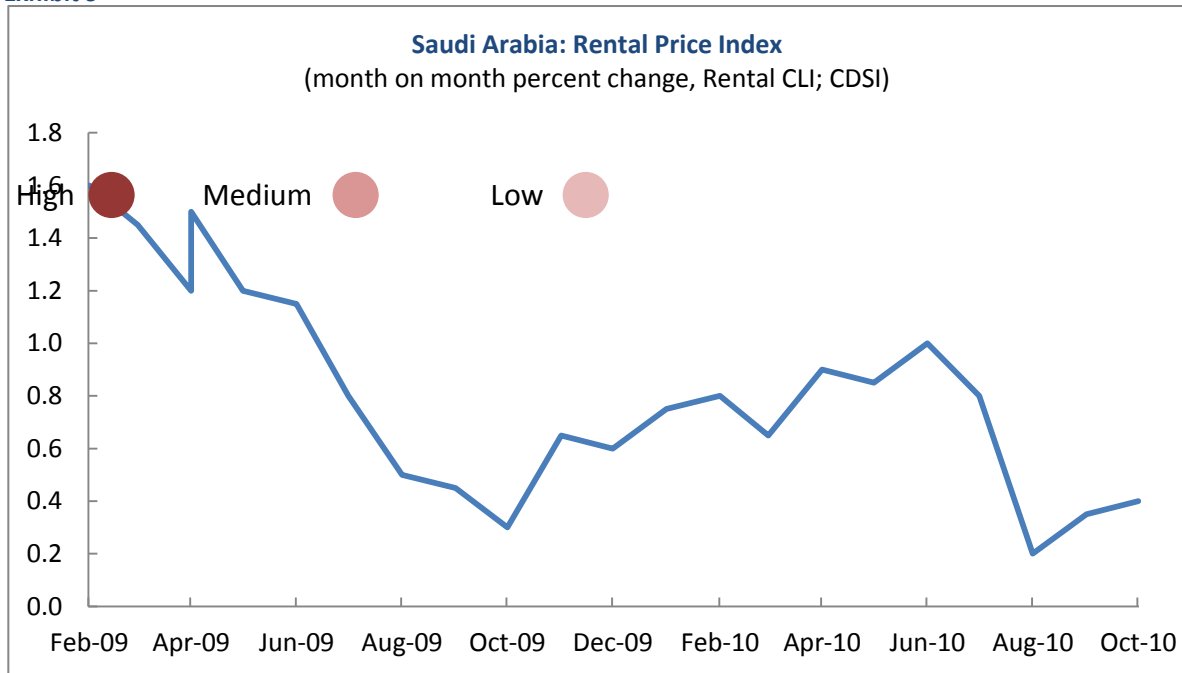
Exhibit 9

Factors	Justification	Impact
Increasing housing prices	The cost of living in the KSA is very expensive, which in turn is deterring the growth of the housing industry in the country. People are not very willing to have new expensive houses. A huge gap between demand and supply makes the house very expensive affairs in the KSA. Riyadh has witnessed an increase in land price by	

	20 per cent during 2003-07. Jeddah has witnessed a 16 per cent increase in house price in 2009.	
Increasing rental rates	The KSA has witnessed high rents of housing for the last couple of years. Inflation is one of the main reasons for the increase in rents.	●

*Source: Frost and Sullivan*

**Exhibit 9**



*Source: Frost and Sullivan*

Housing Financing: The Real Estate Development Fund is entitled to provide financing for the home loans. However, the loan is not sufficient to boost the construction sector in the KSA. Moreover, the approval process to get loan is also very lengthy in the country. Although, commercial banks provide mortgage loans, it is restricted for those who can afford hefty amounts of down payment. The amount of bank mortgage lending is only a bare minimum of around 3 per cent of GDP in in the KSA, while it is 6 per cent in Kuwait, 7 per cent in the UAE, and more than 50 per cent for most of the developed countries.

## Competition

The three major KSA contactors who largely dominate the construction market in the country are:

- 1) Saudi Bin Ladin Group
- 2) Saudi Oger

---

### 3) El Seif Engineering Contracting Company

Apart from these three big contractors, some other mentionable names are:

- 1) Abdullah AM Al-Khodari Sons & Co
- 2) Drake and Scull International
- 3) Al Harbi Trading & Contracting
- 4) Al-Kifah Contracting Company
- 5) Al Rashid Trading & Contracting Co
- 6) El Seif Engineering Contracting Company
- 7) Al Fouzan Trading & General Construction Company
- 8) Al Arrab Contracting Company

Currently, many international firms including many Chinese contractors are showing interest in the Saudi construction market owing to various factors including strong economic growth, favourable investment climate and supportive government policy. For example, JGC Gulf International Co. Ltd. is a wholly owned subsidiary of JGC Corporation, which is the majority (75 per cent) shareholder of the company, and JGC Singapore Pte Ltd is the minority (25 per cent) shareholder. Presently, the sector has witnessed a new trend, that is, the presence of many consortium contractors. The consortium can be made by various local, international, and solely international partnerships.

Examples: A completely international consortium, a joint venture between a company in the UAE and a Greek company has got the award to build the Aldara Hospital in the KSA. Malaysia's MMC Corporation Berhad and the domestic contractor Saudi Binladin Group have built a consortium to develop Jizan Economic City in Red Sea coast area.

The construction industry of the KSA is primarily dominated by the family run businesses like Saudi Bin Laden Group, Saudi Oger, and El Seif Engineering Contracting Company.

**Saudi Bin Ladin Group:** Established in 1931 by Mohammed Binladin in the KSA, the company is a privately held one and is headquartered at Jeddah.

Since its inception, the Saudi Bin Ladin Group has been maintaining a strong bond with the royal family. Quality work along with a strong relationship with the royal family made it the most successful construction company in the KSA. The company has worked successfully on various projects including the most prestigious extension of the holy Mosque in Madina and the holy Mosque in Makkah. The group has played a very important role to develop the modern KSA. The company has diversified its type of business including construction, power, and industrial. A few mentionable projects of the firm include:

- Expansion of the holy mosque

- 
- Expansion of Alharam Alnabawi
  - Establishment of Quba mosque
  - King Abdul Aziz International Airport
  - King Saud University
  - Al-Faisaliyah Tower
  - King Abdullah Economic City
  - King Abdullah University
  - Dar Altouheed Hotel
  - V.I.P Military Hospital and many more

The company has also extended its presence to the international market. Some mentionable international projects of the company include:

- Sharjah American University
- Four season hotel-Jordan
- Putra Jaya Mosque
- Legend Plaza Building Al Qusaia

**Saudi Oger Ltd:** It was incorporated in the year 1978 in the KSA under the various rules and regulations of the country as a construction company based in Riyadh. The company is operating through its various subsidiary companies and affiliates. Although, construction is the main business, Oger has made various investments in different sectors including investments in the KSA and Middle Eastern Financial Institutions, Real Estate Projects in Europe, and the United States. The major banking investments of the company are:

- The KSA: 8.6 per cent shares of Saudi Investment Bank
- Jordan: 13.98 per cent shares of Arab Bank
- The limited company has formed part of Hariri Group of Companies, many Financial Institutions, Holdings, and Realities across world.

A few mentionable projects of the company are:

- The Ritz Carlton hotel
- Princess Noura Bint Abdulrahman University
- King Abdullah University of Science & Technology

- 
- King Abdul Aziz Historical Centre
  - Janadriyah Equestrian Complex

**El Seif Engineering Contracting Company:** The group was established in 1951 and started its operation at Riyadh. In 1975, the group had established its construction wing as El Seif Engineering Contracting Company. The company is a fully owned subsidiary of El Seif Group Company Ltd. It has several branches situated in Doha (Qatar), Dubai and Abu Dhabi (the UAE) , and Beirut (Lebanon). The major business sectors of the El Seif Engineering Contracting Company are:

- Building
- Infrastructure
- Airports and Defence facilities
- MEP

Good quality of work along with the timely delivery is the main factor behind the success of the company.

### **Competitive Analysis: Porter's five forces**

Threat of New Entrants: Medium

- Smaller participants are struggling due to currency fluctuations resulting in the dollar value showing an increasing trend
- Since the market is capital-intensive, huge investment is required to enter into the market

Bargaining power of buyers: High

- Consumers have lots of options to choose
- Threat of substitutes: Low
- There are no such substitute products for building

Bargaining power of suppliers: Low

- One of the important raw materials of building construction is cement. The industry is enjoying subsidised fuel benefit.
- There are around 13 cement-manufacturing companies in the Kingdom of Saudi Arabia. So the highly competitive market set the bargaining power of suppliers comparatively low

- 
- Other raw materials of the building construction industry including iron rod, stone chips, etc. are cheap and readily available in the market

Competitive Rivalry: Medium

- There are basically three large participants and some medium to small participants who dominate the entire construction industry in the KSA
- Currently, the market is facing some level of competition from Chinese companies

### **Entry Barriers Foreign Participants**

The KSA's construction project is largely dominated by the Government since the PPP model is still at a nascent stage in the country. In addition to this, the Government prefers nationals in the GCC for construction projects. The KSA individuals or companies are always given preference over all other suppliers for Government contracts.

Other suppliers can get preference only if the KSA national or companies can hold 51 per cent share of the suppliers or contractors capital.

If a foreign participant is looking to enter into the the KSA construction sector, it needs to do some strategic relationship with the local partner.

If a foreign company looks to bid for a project of the KSA, it is required to have in-depth knowledge of the local market, legal and tax system, cultural consideration of the country, and strength of local competition and to do this again it needs to build a strong partnership with a Saudi national or company.

### **SWOT analysis**

Strength:

- The KSA construction sector is the largest one in the Middle East
- Although, Government expenditure is the main driving factor for the sector, gradually, the Government has also made efforts to attract more private investment into the sector
- According to the ninth development plan, around SAR 1,444 billion or USD 385 billion is estimated to invest in the social and economic infrastructure between 2010 and 2014
- The Ministry of Housing has announced to build 500,000 social housing units by 2020. The project cost is estimated to be around USD 70 billion

Weakness:



- 
- The industry is highly dependent on Government contracts
  - The KSA banks have played very small roles in terms of mortgage financing
  - To obtain permit for the construction and development procedure is a mammoth and lengthy task and, hence, can delay the project

#### Opportunities:

- The Government of the KSA is continuously focusing on housing shortages in the country and hence investing in a large amount for the sector
- Large foreign companies are showing interest in the sector due to increasing amount of private sector investment in the sector
- It is expected that the new proposed mortgage legislation will improve the procedure to access the housing finance for middle- and lower-income Saudis and small- and medium-sized property developers
- According to the new foreign investment law, foreigners will be allowed to buy real estate within the country. This may be strong the housing demand and can change the client base
- Religious tourism to boost the hotel and hospitality sector

#### Threats:

- The entire GCC is facing a tough challenge of high input cost and shortages of skilled labour
- Political turmoil in some countries also a major factor of concern

We can conclude that since there is an increasing in infrastructure development project, the KSA is a great opportunity for in-bound construction companies, if they can get access to Government contracts.

## Recommendations and Conclusions

### Attractiveness of the KSA Construction Sector

A steady increase in population base, an increasing per capita income, and favourable Government initiatives makes the KSA construction industry a lucrative sector for investment. The KSA is facing tough challenge of housing shortages. Currently, a lot of building construction projects are undergoing in the country. Value of building construction projects in the KSA was worth USD 7,87,101 million in 2014.

A favourable policy environment along with the growing economy is also driving the investment in the social housing programme. The KSA construction industry is likely to reach USD 46 billion by 2020 at a CAGR of around 9 per cent.

---

Although being the largest market in the GCC and growing at a steady pace, the KSA real estate market is still underdeveloped compared to other developed countries. Only 30 per cent of the Saudi population have their own houses and this factor makes the untapped KSA construction market more lucrative for the foreign as well as domestic participants.

Japanese construction companies with their technology know-how and global experience will find the opportunities in the KSA extremely attractive.

The KSA Government offers various benefits for investors in the construction sector. Relevant tax structure and other incentives for inbound construction activity include:

- For building construction, a flat 5 per cent depreciation is allowed
- For machinery, factories, and equipment, a 25 per cent depreciation is allowed
- For rest of the fixed assets (most other), 10 per cent depreciation is allowed

Other incentives are:

- The KSA provides tax incentives for the development projects in the country
- Customs duties exemption are applicable on imported machinery, spare parts, and raw materials used in large development projects
- Joint venture companies are provided with grants to train Saudi nationals

### **Recommendations on Locations**

Foreign investors are prohibited to do any kind of construction works in the two sacred cities Makkah and Madinah. Apart from these two cities, new entrants can look at any other location. Jeddah, Riyadh, and Al Khobar are the three major business regions of the KSA where most of the construction activities are concentrated and would be ideal locations for market entry.

Given that construction sector would require high investments, it is important for potential entrants to have good financial banking and the turnaround time for new entrants could take a longer period of more than four to five years depending on the kind of projects involved in.

### **Recommendations on the Business Model**

The most popular business model to enter into the KSA construction sector for the foreign companies is the joint venture model. Getting an investment licence is the most difficult part for the establishment of a company with foreign shareholders in the KSA. This is considered to be the first step to formally set up a business in the country.

---

## Pre-entry Procedures

It is important for a new entrant to thoroughly study the business environment:

- To have in-depth knowledge about the KSA
- Do a thorough and in-depth market survey of the sector the company wants to venture into
- Research carefully whom to have partnership with to enter into the market
- Cultural consideration is a very important factor in the KSA. Hence, the foreign company should be very careful while entering the market

If any foreign company is looking to enter into the building construction market in the KSA, then he has to obtain a good knowledge about the country in terms of cultural consideration of the country, economic back ground of the country including per capita GDP, net trade balance, Government initiatives related to the particular sector, banking sector structure, loan availability, etc. A complete due diligence of the partner is essential, too.

---

## Chapter 13: Facilities Management Services Sector

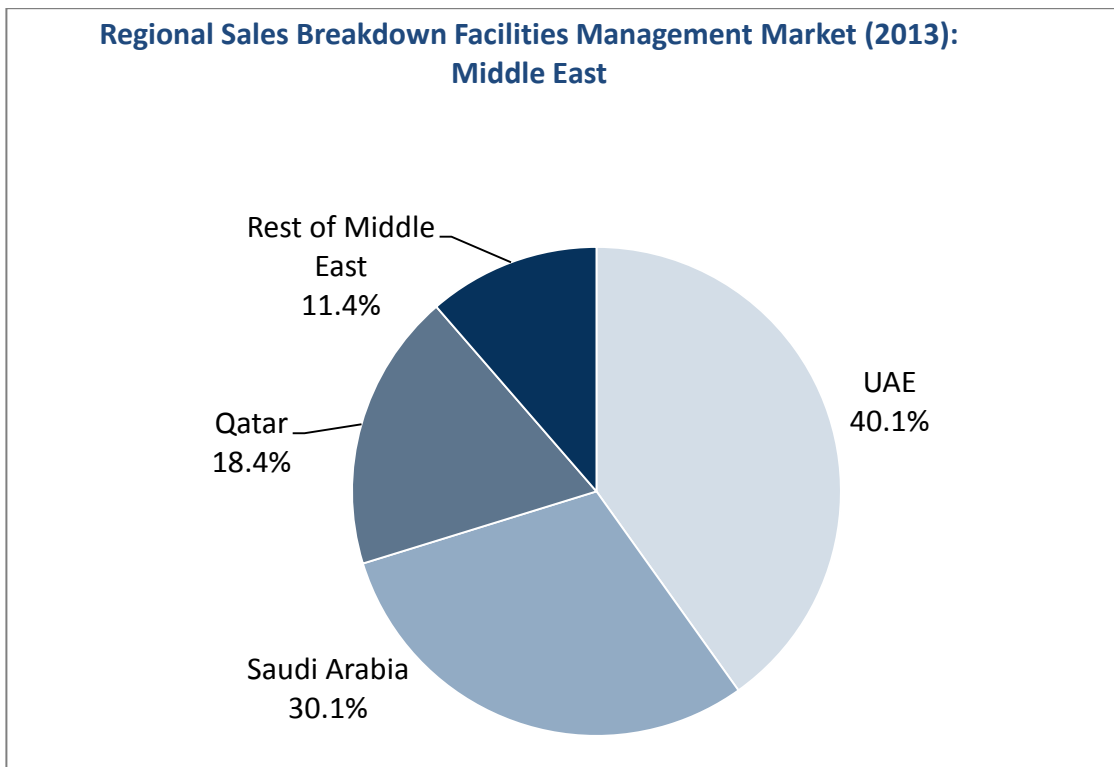
### Overview

The facilities management (FM) industry in the GCC is growing at a tremendous pace. KSA accounts for 40 percent combined share in FM services market in the GCC. The KSA's boom in construction and oil and gas wealth are the key factors fuelling the growth of industry in the region. The KSA is considered the most promising FM market in the GCC for the next five years.

The FM segment in the KSA is majorly dominated by domestic and international players, with local enterprises holding major market share in the industry.

As per industry estimates, the KSA's FM industry is expected to generate revenue worth USD 100 billion in the coming 20-25 years. During 2013, the industry was worth around USD 1.80 billion and growing at a rate of 19.6 per cent. The GCC FM market value was around USD 3.9 billion and USD 4.5 billion during 2010 and 2011 respectively.

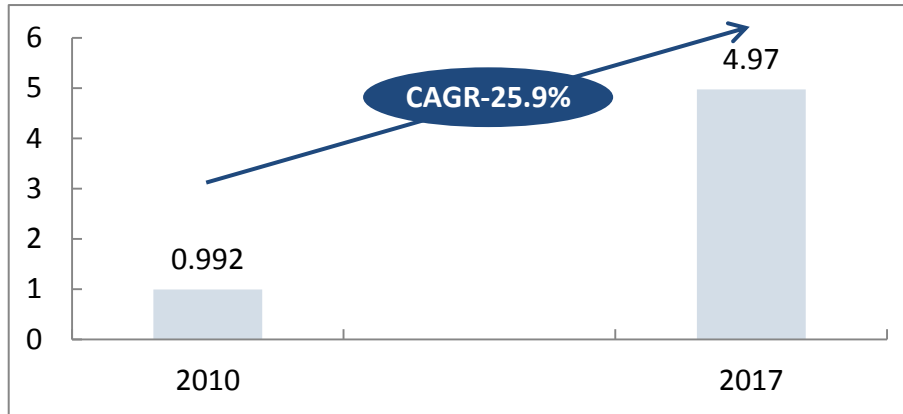
Exhibit 1



Source: Frost and Sullivan

## FM industry growth in the KSA (Value in USD billion)

Exhibit2



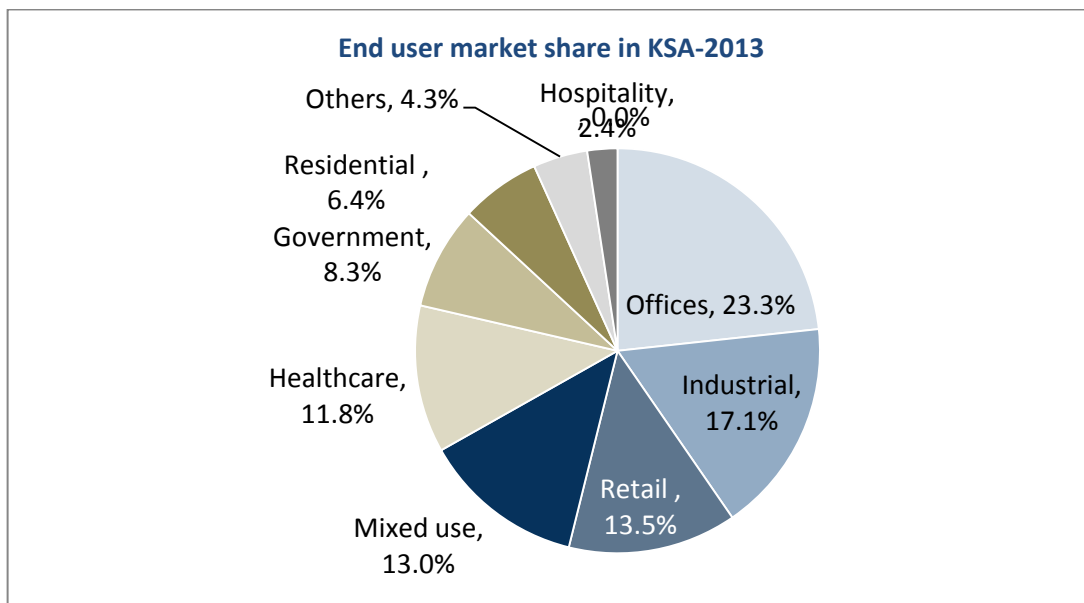
Source: Frost and Sullivan

During 2010 and 2011, FM was around USD 0.992 billion and 1.212 billion respectively. As per Frost and Sullivan research, the KSA FM market would witness a CAGR of 25.9 per cent during 2010-2017 and likely to touch USD 4.97 billion by 2017.

### End-User Market share-2013

Commercial, industrial, and Government segment together represented 33.9 percent of the total FM services market in the KSA during 2013. The commercial segment includes office and retail. The residential segment is also expected to experience an upswing with the Government investing around USD 67.5 billion to overcome the housing crisis experienced by the nation.

Exhibit 3



Source: Frost and Sullivan

## Revenue generated by various segments-2013

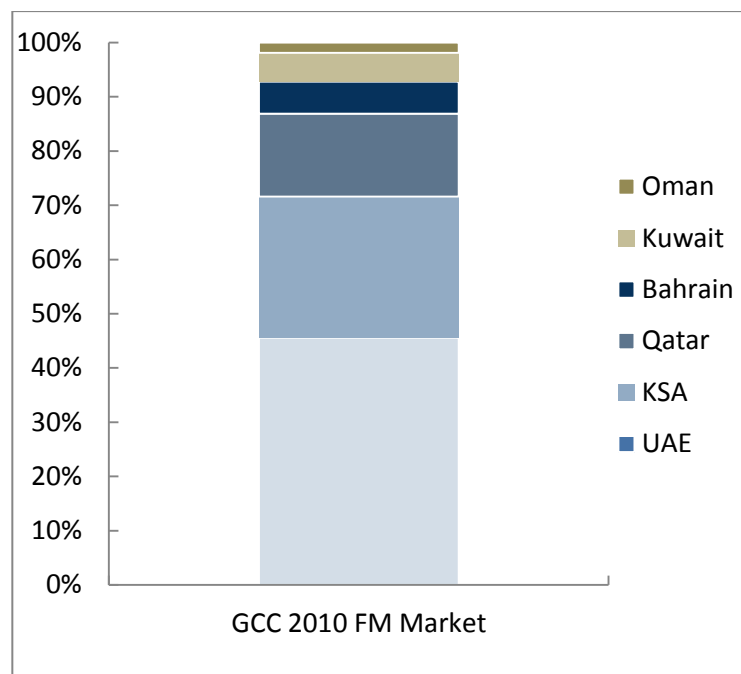
Exhibit4

End-user segment	Market Revenue (USD Mn) -2013
Offices	419.2
Industrial	308.1
Retail	242.5
Mixed use	437.3
Healthcare	211.9
Government	149
Residential	114.7
Others	78.2
Hospitality	43.3

Source: Frost and Sullivan

The UAE being the biggest player in the GCC FM industry has the largest number of ongoing construction projects, followed by the KSA. After the economic crisis (2007-2009), the focus has shifted from the UAE to KSA and Qatar. In the KSA, an awareness level about the advantages of outsourcing FM is gradually increasing which will enhance growth of the industry in the coming years.

Exhibit5



Source: Frost and Sullivan

---

## Trends

- Commercial offices are the biggest spenders on FM services in the KSA. Commercial, residential, and infrastructure are expected to witness demand for additional space with upcoming economic cities in the nation.
- Industrial buildings are slowly opening to the idea of outsourcing non-core activities such as cleaning, catering, security, landscaping, etc. to the FM service providers.
- As real estate developers focus on green buildings, sustainable building practices are emerging as a major trend in the FM industry.
- Also, usage of technology to monitor and process building specific data to effectively manage facilities is a positive trend witnessed in the market.
- Global companies are joining hands with local companies for local market knowledge.
- Outsourcing by hotels is a growing trend in this region.
- Rail infrastructure, airports, public spaces such as mosques, etc., are now open to outsourcing FM services. Winning Government projects is considered a boost to an FM company's brand image.
- Healthcare, education, and retail sectors are rapidly growing in the KSA and all these sectors have already embraced the idea of outsourcing. Growing demand for critical service maintenance has influenced FM companies in the KSA to improve capabilities in these areas of operation.

## Growth Drivers

- Strong GDP growth which complements the construction industry growth is the key factor driving the industry forward.
- The KSA being an industrialized economy, heavy budget allocation by the Government to promote industrial growth would boost growth of FM.
- Increasing investments in Government infrastructure paves the way for increased penetration of FM in the Government sector.
- Construction of Government buildings have also seen an increase in the last few years, leading to increased opportunities for FM.
- Extreme weather conditions and demand for worldclass maintenance of assets have increased the demand for FM services in the country.

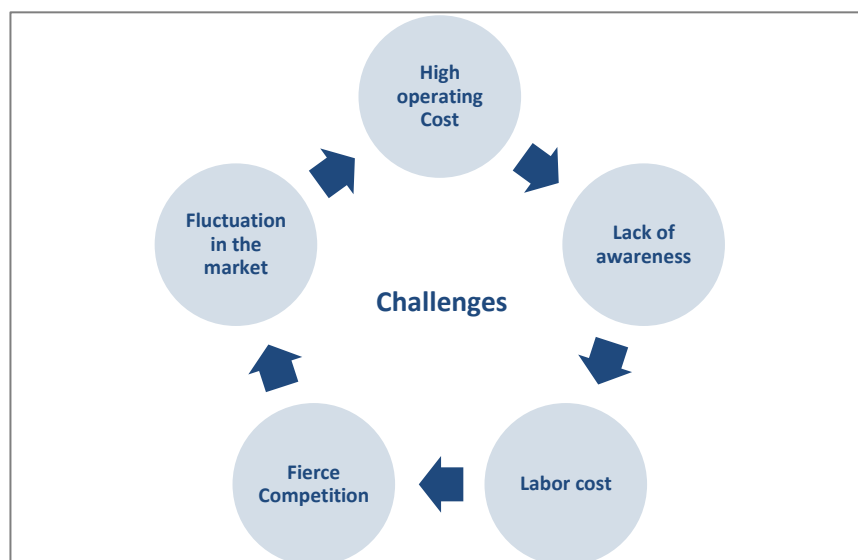
- The KSA is witnessing a surge in its residential sector as the Government is trying to mitigate the housing shortage. The country requires 9,73,000 homes by 2015 which would further accelerate the growth of industry in the region.
- Growing awareness on the convenience of outsourcing FM in the region is helping the growth of the industry.
- Healthcare, education, and retail sectors are rapidly growing in the KSA and all these sectors have already embraced the idea of outsourcing. Growing demand for critical service maintenance has influenced FM companies in the KSA to improve capabilities in these areas of operation.

### Restraints

- Lack of technology know how- Most FM companies in the KSA still follow conventional management processes
- Stringent rules and immigration laws exist
- There is lack of skilled manpower
- Increasing labour cost is one of the biggest challenges encountered by FM companies  
Dependence on skilled expatriate labour is adversely affecting growth of the industry

### Challenges

Exhibit 6



Source: Frost and Sullivan

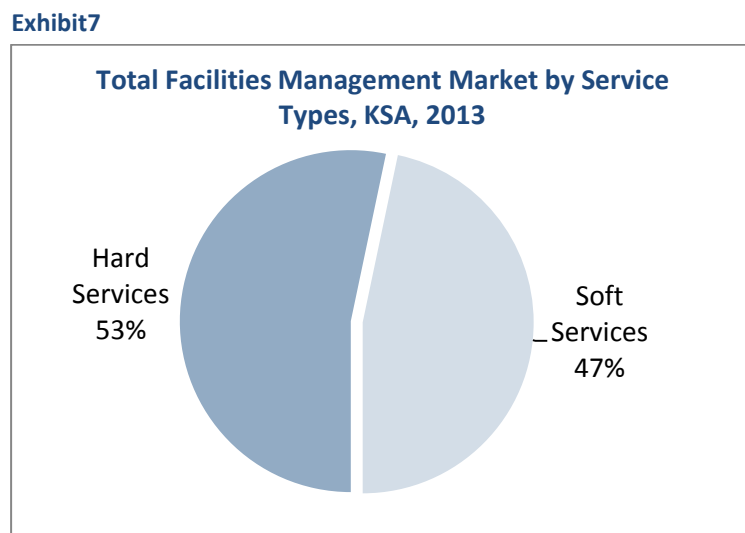
- Increasing competition from global companies and aggressive expansion of domestic companies.



- Cost involved in providing services such as catering and pest control are also witnessing higher cost due to workforce involved. Although niche Services and Specialised Services fetch attractive margins, the growth rate and penetration of such services is relatively low, making it a long-term possibility.
- Market players are struggling to keep their costs down and preserve profit margins in spite of growing demand.
- Lack of local knowledge means high investment is needed for overseas recruitment, training, and workforce management
- Lack of awareness and costconsciousness of customers pose a business risk to the FM companies
- The KSA's staffing cost is relatively higher than other countries in the region, especially for skilled workforce.

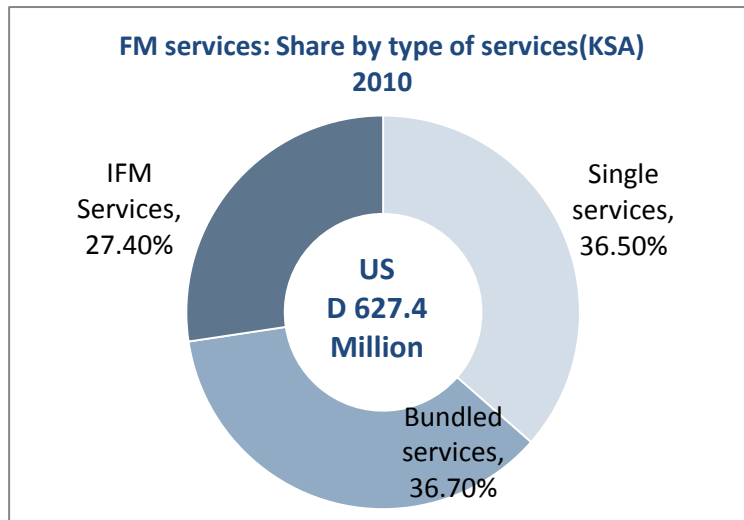
### Sub Segments

The FM industry is categorised into hard services and soft services by service models. Furthermore, it is classified as single services, bundled services, and IFM (Integrated Facility Management) services by type of services offered.



Source: Frost and Sullivan

Exhibit8



Source: Frost and Sullivan

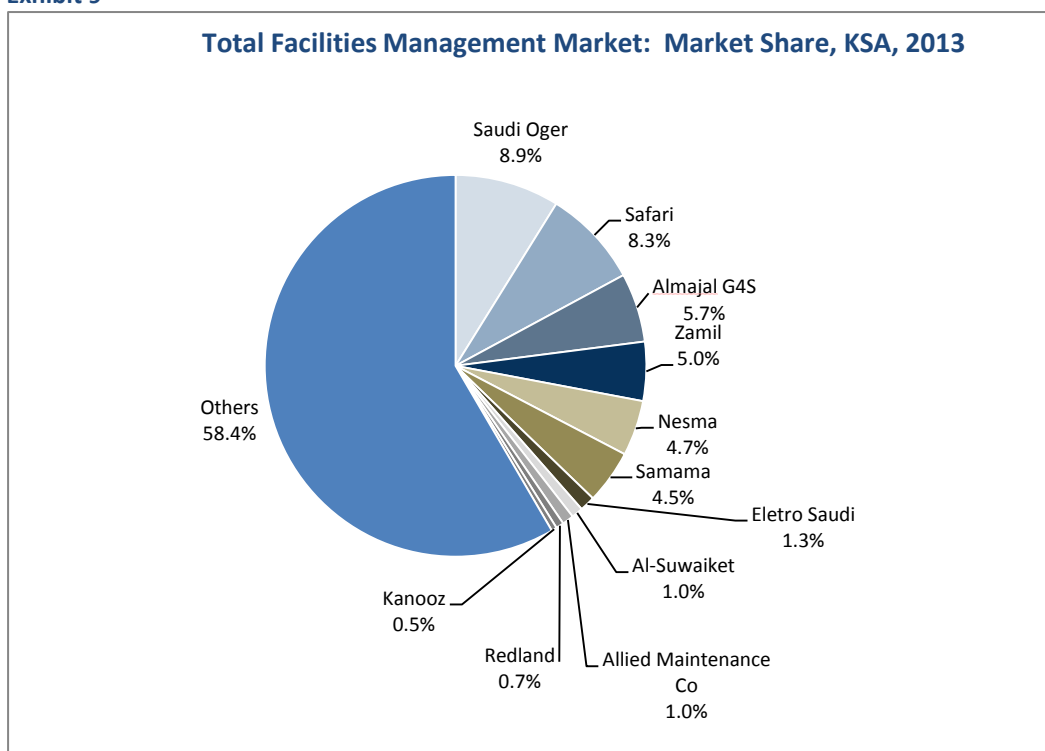
Market players offer soft services such as security, cleaning, and landscaping under single services. Hard services are not preferred under single services offering. Mostly tier 3 companies offer single services. Hard and soft services are being offered under bundled services. The fast paced KSAs FM market is witnessing an increasing number of new market players, mostly from the UAE. With new entrants, FM services market is witnessing an increase in penetration of bundled and IFM services.

### Entry Regulations

In the KSA, the operator is not allowed to employ staff until they have signed a contract; obtaining a visa without a contract in place is very difficult. Saudisation is another major challenge international operators face. Locals are not keen on taking up jobs in the FM sector. So the most convenient method of doing business in the KSA is through a joint venture. In this model, the local partner will take care of the regulation and employment challenges.

## Major Players

Exhibit 9



Source: Frost and Sullivan

Exhibit10

Market players	Market Revenue (2013) USD Mn
Saudi Oger	159.4
Safari	39.7
Aljamal G4S	105.3
Zamil	90
Nesma	84.5
Samama	81.9
Eletro Saudi	23.4
Al-Suwaiket	17.6

Allied Maintenance Co	17.6
Redland	12
Kanooz	8.21
Others	1.51.5

Source: Frost and Sullivan

Companies from the KSA are given first preference. Also companies that have a cordial relationship with Government entities have witnessed better success in the KSA. Longterm commitment to the market and references play a pivotal role in ensuring success in the country.

## Competition Assessment

### Exhibit11

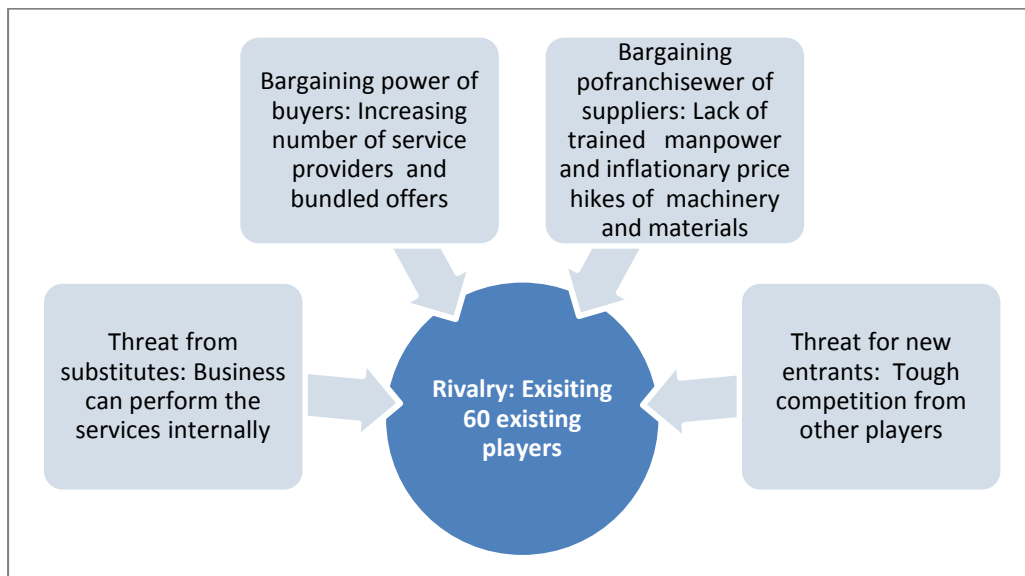
Competitors	Year of estb	Business Model	Presence in the KSA onelocation /multi locations	Local HQ in the KSA/Du bai	CEO - Local or from Foreign HQ	How do they advertise locally in the KSA
Saudi Oger	1978	Local Enterprise	9 branches	KSA	Local	Networking/PR/Print media/Digital media/Social media
Safari Group	1984	Local Enterprise	3 branches	KSA	Local	Networking/PR/Print media/Digital media/Social media
G4S KSA	2007	Local Enterprise	14 branches	KSA	Local	Networking/PR/Print media/Digital media/Social media
Jones Lang LaSalle		100% subsidiary		UAE		Networking/PR/Print media/Digital media/Social media

Mace macro	2010	100% subsidiary		KSA		Networking/PR/Print media/Digital media/Social media
Dussman service				UAE		Networking/PR/Print media/Digital media/Social media

Source: Frost and Sullivan

## Entry barriers

Exhibit12



Source: Frost and Sullivan

## Rivalry

There are more than 60 FM companies in the KSA. Majority of the top 10 companies in the country are local players. The new entrant will have to face fierce competition from such smaller local companies offering single or bundled services to customers (one stop shop). The industry is highly fragmented with many regional and local players. Majority of customers are comfortable with their old providers and renew contracts with them.

**Bargaining power of buyers:** There are a large number of service providers to choose from. Many of them provide attractive offers to their customers (sometimes both hard and soft services will be managed by the same service provider with a lower price) which increases the bargaining power of buyers.

---

**Bargaining power of suppliers:** Lack of trained manpower is a major challenge faced by FM companies in the KSA that increases labour costs and dependence on the less available expatriate labour (due to stringent immigration process) and fluctuating prices of machinery and materials used increases the bargaining power of suppliers.

**Threat for new entrants:** Increasing number of FM companies in the region creates tough competition in the industry.

**Threat from substitutes:** FM companies are facing threats from real estate service providers, as well as building owners who perform one or more of the FM services internally.

As per the assessment, threat from existing established competitors who offer bundled services to customers would be the major threat a new entrant would face, followed by lack of skilled labour.

## Recommendations and Conclusions

### Attractiveness of the FM Services Sector

As Government spending on infrastructure projects crosses billions of dollars in the KSA, the FM industry will witness massive growth. The KSA FM industry is likely to touch USD 100 billion over the next 20-25 years.

The Government plans to construct one million houses to meet 80 per cent of the demand during the Ninth Five Year Plan. The Government is also planning to establish housing projects along 266 million square metres of land during the period. The KSA has around USD1 trillion worth of projects planned or under construction. Some of the major ongoing/upcoming projects are:

Exhibit13

Name of project	Project value (USD)
Aldara Hospital	107.8 million
King Khalid International Airport, Terminal 5.	0.4 billion
Jeddah Corniche	0.5 billion
King Fahad Medical City Hospital.	139.2 million.

<b>Abraj Kudai Development.</b>	3.5 billion
<b>King Abdullah Financial District Museum.</b>	300 million

Source: Frost and Sullivan

As more construction projects get completed in the KSA, there is huge potential for the FM industry to grow. Currently however, the market is ruled majorly by local companies and some western players. In order to succeed in the FM industry, an entrant needs to have a thorough knowledge about the local market. So it is advisable to adopt a joint venture business model with an already established local company to start the business.

Japanese FM companies follow world class best practices and it would be beneficial for local companies to liaise with them.

### Recommendations on Location and Branches

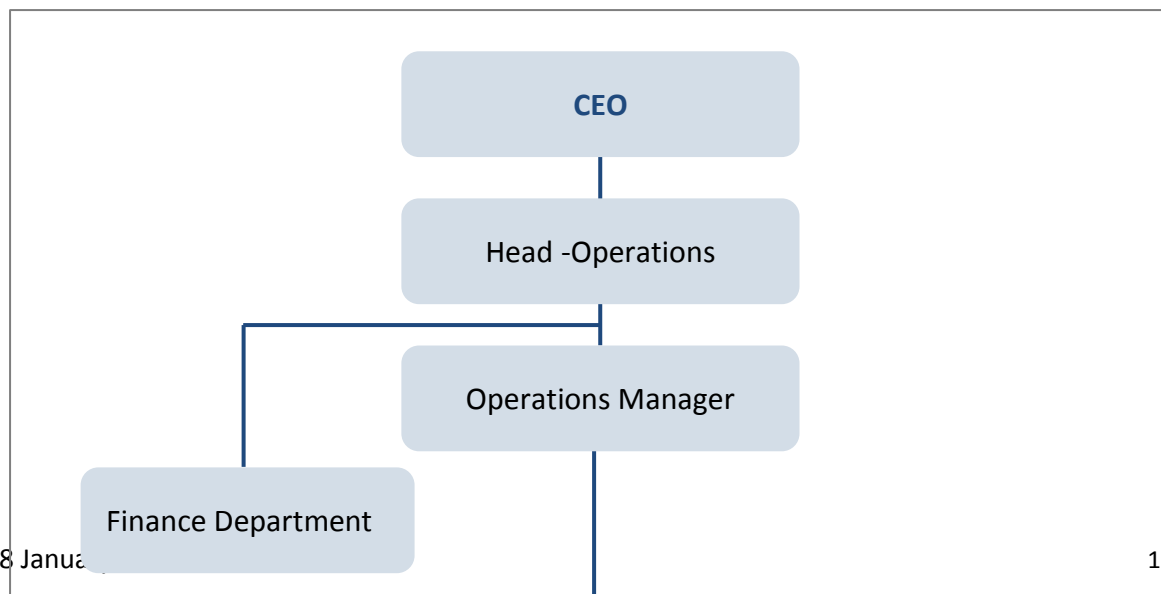
Jeddah and Riyadh would be the ideal locations as most of the construction projects are coming up in these regions. Two branches in two different locations is the ideal situation. It is expected that it will approximately take around 2-4 years for an FM company to become profitable. The first two years will be spent in hiring and marketing and once they gain the confidence of the client, the business will function on the basis of repeat orders /word of mouth and extending contracts.

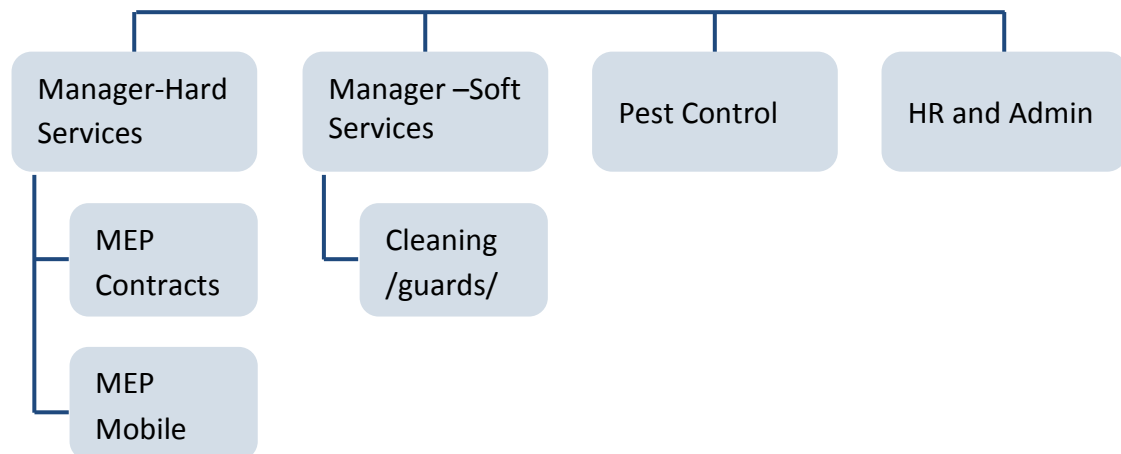
### Recommendations on Marketing/Advertising

In this industry, networking is the most popular marketing technique which has proved successful. Apart from that, social networking sites like LinkedIn and registering with industry associations also helps.

### Recommended Organization Structure

Exhibit14





### Recommended Business Model for a Foreign Company

*Source: Frost and Sullivan*

Well known international service providers have their 100 percent subsidiaries in the region. Smaller players follow the joint venture model.

The most favourable model of business in the KSA for an FM company would be to get into a joint venture with an existing local service provider/partner. In this industry, networking is a key factor and most of the marketing happens through this. So the local partner can support the new entrant in channelizing its network. In addition to this, joining hands with local companies helps international service providers with local market knowledge.

### Procedures for Registration of Foreign Company

It is necessary to obtain a foreign investment license from the Saudi Arabian General Investment Authority (SAGIA), and once this license has been received, foreign entities must register with the Ministry of Commerce and Industry.

### Pre Entry Procedure

Companies need to be quizzed on the type of company /service they prefer

- In house or outsource?
- Currently what services do you outsource?
- How do you select a service provider?
- Preference- local service provider or international. Why?
- Will you prefer different service providers for all services or different providers for individual services (one stop shop)?
- Do you have separate budget for hard and soft services?
- Will prefer bundled offering or separate services?
- Which is more important for you, quality of service or price?



- 
- Are you satisfied with your current service provider? Why? Will you extend the contract? Some best practices of your current provider/ Expectations from your provider?

---

## Appendix

### List of Sources

[http://www.theglobaleconomy.com/Saudi-Arabia/Share\\_of\\_services/](http://www.theglobaleconomy.com/Saudi-Arabia/Share_of_services/)

<http://fanack.com/en/countries/saudi-arabia/economy/service-sector/>

WTO

GCC retail industry report pdf-2011

<http://www.arabnews.com/news/463668>

[http://www.saudilegal.com/saudilaw/04\\_law.html](http://www.saudilegal.com/saudilaw/04_law.html)

[www.franchise.org](http://www.franchise.org)

Euromonitor

<http://nuviun.com/content/news/qatar-and-uae-are-fastest-growing-healthcare-markets-in-the-gcc>

<http://english.alarabiya.net/en/business/economy/2014/01/08/GCC-healthcare-spending-to-grow-11-4-percent-until-2015.html>

Alpen Capital

<http://www.alkhabeer.com/sites/default/files/Saudi%20Budget%202014%20-%20English.pdf>

Ministry of Health-Saudi Arabia

[www.skfh.com.sa](http://www.skfh.com.sa)

Zawya

Bloomberg

Business Week

<https://www.gov.uk/government/publications/saudi-arabia-record-budget-for-2015/saudi-arabia-record-budget-for-2015>

<http://www.thenational.ae/business/economy/saudi-health-privatization-plans-left-in-doubt>

---

<http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20130711173140>

<http://gulfbusiness.com/2014/12/saudi-arabia-liberalises-investment-rules-healthcare-sector/#.VNnTkeaUeyk>

<http://www.saudi-healthcare.com/investing-in-sa-healthcare-sector>

<http://www.mideastlaw.com/middle-eastern-laws-saudi-arabia.html>

<http://www.zahrawi.com/index.php?page=about&action=default>

<http://www.srlworld.com/international/content/141/international-presence.html>

[http://www.saudilegal.com/saudilaw/04\\_law.html](http://www.saudilegal.com/saudilaw/04_law.html)

<http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=20120219117860>

<http://www.idc.com/getdoc.jsp?containerId=prAE24514713>

<http://www.minshawi.com/other/nabil2.pdf>

[http://www.idc.com/getdoc.jsp?containerId=IDC\\_P29182](http://www.idc.com/getdoc.jsp?containerId=IDC_P29182)

#### Business Monitor

<http://www.clydeco.com/insight/updates/view/saudi-arabia-removes-barriers-to-infrastructure-contracting>

<http://www.ibimapublishing.com/journals/JOKM/2013/450838/450838.pdf>

<http://www.arabnews.com/news/456095>

<http://wetalkaboutbusiness.blogspot.in/2014/03/overcoming-barriers-to-entry-case-study.html>

<http://webcache.googleusercontent.com/search?q=cache:o3zsfAH1tcJ:https://dharlawllp.wordpress.com/2014/01/16/doing-business-in-saudi-arabia-how-to-establish-a-foreign-company-in-the-lucrative-construction-sector/+&cd=1&hl=en&ct=clnk&gl=in>

<http://www.globalpropertyguide.com/investment-analysis/Q2-2014-Global-house-price-boom-continues-led-by-Middle-East-Europe-and-the-Pacific>

<http://www.businessinsider.com/imf-global-housing-markets-are-overheating-2014-6>

<http://www.forbes.com/sites/kenrapoza/2014/06/12/imf-warns-global-housing-market-overheating-including-in-u-s/>

---

[http://mesteelmag.com/GCC%20Construction%20Market%20Outlook%20July%202014\\_07072014.pdf](http://mesteelmag.com/GCC%20Construction%20Market%20Outlook%20July%202014_07072014.pdf)

[http://www.skfh.com.sa/Uploads/UploadFiles/2059915\\_Saudi%20Arabia%20Construction%20260713.pdf](http://www.skfh.com.sa/Uploads/UploadFiles/2059915_Saudi%20Arabia%20Construction%20260713.pdf)

<http://www.constructionweekonline.com/projects-994-construction-of-1200-housing-units-in-jeddah/>

<http://www.constructionweekonline.com/projects-993-construction-of-5000-villas-in-eastern-province/>

#### MEED

<http://www.arabianbusiness.com/revealed-saudi-arabia-s-10-biggest-contractors-565626.html?page=4#.VL-8WNKUeyk>

<http://www.igc.com.sa/web/aboutus.html>

<http://www.meed.com/housing-crisis-looms-in-saudi-arabia/3104147.article>

<http://www.bca.gov.sg/ExportServices/others/KSACountryReport.pdf>

[http://www.skfh.com.sa/Uploads/UploadFiles/2059915\\_Saudi%20Arabia%20Construction%20260713.pdf](http://www.skfh.com.sa/Uploads/UploadFiles/2059915_Saudi%20Arabia%20Construction%20260713.pdf)

<http://bdo.scripthandler.com/g20/pdfs/SaudiArabia.pdf>

<http://content.argaam.com.s3-eu-west-1.amazonaws.com/9c81793f-1e62-4f08-abaf-70ac03b0506d.pdf>

[http://www.export.gov/saudi-arabia/build/groups/public/@eg\\_sa/documents/webcontent/eg\\_sa\\_076518.pdf](http://www.export.gov/saudi-arabia/build/groups/public/@eg_sa/documents/webcontent/eg_sa_076518.pdf)

[http://mec.biz/term/uploads/PIQG2\\_3020-01-01-2012.pdf](http://mec.biz/term/uploads/PIQG2_3020-01-01-2012.pdf)

<http://www.transparencymarketresearch.com/saudi-arabia-cement-market.html>

<http://bdo.scripthandler.com/g20/pdfs/SaudiArabia.pdf>

<http://www.shuaa.com/media/171069/ksa-restaurant-sector-update-11-june-2014.pdf>

<https://www.foodexport.org/Resources/CountryProfileDetail.cfm?ItemNumber=1019>

<http://www.dmnews.com/mcdonalds-arabia-launches-family-time-forever/slideshow/542/#0>

[www.dentons.com/~media/PDFs/Insights/.../Saudi%20Arabia.pdf](http://www.dentons.com/~media/PDFs/Insights/.../Saudi%20Arabia.pdf)

---

## Company Laws and Procedures

### Doing Business in KSA

Since 2000 Saudi Arabia has gone through an opening up of its hitherto protectionist economy, to the extent that since 2005 the World Bank has consistently judged the country to have the best overall business environment in the Middle East. These reforms began with the enactment on 10th April 2000 of the new Foreign Investment Regulation, Royal Decree No. M/1 of 5th Muharram 1421 Hejra corresponding to 10th April 2000 Gregorian, and the establishment on the same date of the Saudi Arabian General Investment Authority (SAGIA), which has taken on the responsibility of attracting, encouraging and licensing investment in the Kingdom both from local sources and from overseas. Prior to these reforms, doing business in Saudi Arabia used to be treated as a privilege reserved to local interests, with only few, narrowly defined exceptions.

In essence, while the old regime worked on the principle that all forms of foreign investment in the Kingdom were prohibited unless expressly permitted, the new regulatory framework grants SAGIA the power to effectively license any form of foreign investment, unless policy decisions are made that specific forms of business activities may not be open to foreign participation. Article 3 of the Foreign Investment Regulation gives the Supreme Economic Council the power to “issue a list of activities excluded from the scope of foreign investments”.

Under this Negative List, as revised on 23rd March 2007, the following economic activities are closed to foreign interests:

#### **Industrial Sector**

1. Exploration, prospecting and production of petroleum substances, excluding services related to the mining area, which services are internationally classified under the numbers 883 and 5115.
2. Manufacturing of military equipment, instruments and uniforms.
3. Manufacturing of explosives for use by civilians.

#### **Service Sector**

1. Services for providing catering to military sectors.
2. Investigations and security.
3. Real estate investment in Makkah Al-Mukarramah and Al-Madina Al-Munawara.
4. Tourist guidance services related to Hajj and Umra.

- 
5. Servicing and staff provision services, including private foreign recruitment and private local employment firms.
  6. Real-estate brokerage services.
  7. Services subject to the Publications and Publishing Regulation, with the exception of the following services:
    - a. Pre-publishing preparation services internationally classified under the number 88442.
    - b. International printing presses internationally classified under the number 88442.
    - c. Drawing and calligraphy internationally classified under the number 87501.
    - d. Photography, internationally classified under the number 875.
    - e. Television and radio studios internationally classified under the number 96114.
    - f. Foreign media offices and the correspondents thereof, internationally classified under the number 962.
    - g. Publicity and advertising, internationally classified under the number 871.
    - h. Public relations, internationally classified under the number 86506.
    - i. Publication, internationally classified under the number 88442.
    - j. Journalism services, internationally classified under the number 88442.
    - k. Production or sale or lease of computer software, internationally classified under the number 88.
    - l. Media studies and consultations, internationally classified under the number 853.
    - m. Duplication and reproduction, internationally classified under the numbers 87904+87507.
    - n. Distribution of movies and videotapes internationally classified under the number 96113.
  8. Commercial agents [working] on commission [basis], internationally classified under the number 621.

- 
9. Audiovisual services.
  10. Land conveyance services, with the exception of in-city conveyance of passengers by trains.
  11. Services provided by midwives and female nurses, physiotherapy and paramedic services internationally classified under the number 93191.
  12. Fishing of live water resources.
  13. Poison centres, blood banks and health quarantines.

This revision of the Negative List takes into account certain commitments which Saudi Arabia made prior to becoming a member of the World Trade Organisation on 11th December 2005. Most significantly, distribution services have now been opened in principle to foreign participation, but subject to the following restrictions:

- the permitted foreign equity is initially limited to 51%, and to 75% after 3 years from the date of accession [i.e. 11th December 2008];
- the minimum foreign investment is Saudi Riyals 20 million (US\$5.33 million) by each service supplier;
- the minimum size of outlets may be prescribed; and
- a minimum of 15% Saudi employees must be trained each year.

The key document required for investment by foreign interests in Saudi Arabia is an investment licence from SAGIA. For a licence application in connection with the setting up of a Saudi -Arabian limited liability company, the following documents must be submitted:

1. A completed standard licence application form signed by each applicant, which must include an authenticated declaration that the applicants have reviewed the Foreign Investment Regulation and its Implementing Rules.
2. An authenticated resolution of the applicant's board of directors to incorporate a limited liability company in Saudi Arabia.
3. An authenticated copy of the applicant's certificate of incorporation and articles of association.
4. An authenticated copy of the applicant's balance sheet for a period of two years preceding the year of application.

- 
5. A complete copy of the company's proposed manager's passport, including the empty pages, as well as four passport-size photographs.
  6. Complete copies of the passport, including the empty pages, as well as four passport-size photographs of each natural person who is listed in the applicant's articles of association.

Although obtaining an investment licence is the most crucial requirement for the establishment of a Saudi company with foreign shareholders, it is only the first step in the formal setting up of the business. The following are the key steps in the post-licensing procedures required to set up a Saudi Arabian limited liability company with foreign shareholders:

1. Once the investment licence has been obtained from SAGIA, the shareholders must seek the approval of the company's draft articles of association from the Ministry of Commerce and Industry, in connection with which the following must be submitted:
  - a. SAGIA investment licence.
  - b. Several copies of the company's draft articles of association.
  - c. A copy of the certificate of incorporation and articles of association of each shareholder.
  - d. The Ministry of Commerce and Industry certificate approving the choice of name for the company.
2. Once the Ministry of Commerce and Industry has approved the draft articles of association, the shareholders or their authorized representatives have to execute the articles of association before a notary public, for which the following must be submitted:
  - a. The letter from the Ministry of Commerce and Industry Directorate of Companies addressed to the notary public authorising the notarisation of the articles of association.
  - b. The original articles of association as approved by the Ministry of Commerce and Industry Directorate of Companies and signed by the shareholders or their representatives.
  - c. A copy of the certificate of incorporation and articles of association of each shareholder.
  - d. An authenticated power of attorney authorising the representative of each shareholder to sign the articles of association.



- 
- e. A copy of the SAGIA investment licence.
  - f. A copy of each of the identification cards of the two witnesses present.
3. The next step is the publication of the summary of the articles of association in the Official Gazette.
  4. Thereafter, the shareholders or their authorized representatives have to open an account with a Saudi Arabian bank, in which the company's capital must be deposited
  5. The final step of the registration process is to obtain the commercial registration (CR) certificate, for which the following documents must be submitted to the Ministry of Commerce and Industry:
    - a. An authenticated board resolution from the shareholders appointing their respective board members.
    - b. Two notarized copies of the articles of association.
    - c. Two copies of the receipt of fees for publication of the summary of the articles of -association in the Official Gazette, or the commercial newspaper, as appropriate.
    - d. The bank certificate confirming payment of the capital.
    - e. A copy of the SAGIA investment licence.
    - f. A copy of the office lease.

There is no requirement under Saudi Arabian laws currently in force that a foreign entity which is licensed to conduct business in Saudi Arabia must have a Saudi Arabian partner or shareholder. However, under the Companies Regulation a company must have a minimum of two shareholders. There is no scope for the registration of wholly-owned subsidiaries of a company, whether this is a local or a foreign company.

Although in Saudi Arabia a limited liability company is the most common form of business organisation with foreign participation, it is also possible for a foreign company to establish a branch in Saudi Arabia.

## **Other Forms of Doing Business**

### **Temporary commercial registrations and Representative Offices**

Foreign businesses who have obtained a contract from the Saudi Arabian government or a government agency are entitled to a temporary Commercial Registration, enabling them to

---

perform the contract in Saudi Arabia. Until June 2001 the registrations were issued by the Ministry of Commerce and Industry, since then the task has been shifted to SAGIA. An application for a temporary Commercial Registration must be lodged within thirty days of the signing of the contract. Under this arrangement, the foreign business entity's activities in the Kingdom must be limited to the specific project, and it may not solicit other business in the Kingdom. Where a foreign entity performs several concurrent government contracts in Saudi Arabia, it may establish a representative office to supervise its activities in the Kingdom.

### Technical and Scientific Services Offices

Resolution No. 1532 of 1975 of the Minister of Commerce and Industry makes it possible for foreign companies with specific technical and scientific skills to obtain licences to open technical and scientific services offices Saudi Arabia. However, such offices may not engage in commercial activities, and are meant to give technical support to the parent company's Saudi Arabian agent or distributor, to conduct market surveys, and to undertake product research.

### Professional Partnerships

Pursuant to Order No. 41 of 1991 of the Minister of Commerce non-Saudi entities engaged in the "free professions", which includes accountants, architects, consulting engineers and lawyers, may establish, in partnership with a Saudi entity engaged in the same profession, a presence in the Kingdom under a licence from the Ministry of Commerce and Industry. Such professional partnerships may not have limited liability, and must have at least 25% Saudi Arabian participation. The foreign entity must have been in existence for at least ten years, and must have acquired an "excellent reputation" in its field

### Companies and Partnerships

The overall structure of the Saudi Arabian company law is derived from French law through Egyptian law. The Companies Regulation, Royal Decree No. M/6 of 22nd Rabi Awal 1385 Hejra corresponding to 20th July 1965 Gregorian, has been amended only four times in its thirty five years of existence, but further changes are expected in the foreseeable future.

**It covers a wide range of aspects relating to incorporation, regulation, merger, liquidation and dissolution of eight different types of bodies corporate, which are:**

1. Collective name partnerships, or general partnerships (Arabic: sharikat al-tadamun, French: société en nom collectif), which are partnerships as the term is understood in Common Law jurisdictions, with all partners being fully liable for the partnership's debts (Companies Regulation, Articles 16 to 35);

- 
2. Simple commandite partnerships, or limited partnerships (Arabic: sharikat al-tawsiya, al basita, French: société en commandite simple), which consist of at least one general name partner who is responsible to the extent of his entire fortune for the partnership's debts, and at least one limited and unnamed partner who is responsible for the partnership's debts to the extent of his interest in the partnership's capital (Companies Regulation, Articles 36 to 39);
  3. Joint ventures (Arabic: sharikat al mahasu, French: société en participations), which have no legal personality and which may be formed without this being publicised (Companies Regulation, Articles 40 to 47);
  4. Joint stock companies (Arabic: sharikat al musahama, French: société anonyme), which are the equivalent of the Common Law public limited company (Companies Regulation, Articles 48 to 148);
  5. Share commandite companies (Arabic: sharikat al-tawsiya bi'l ashum, French: société en commandite par actions), which consist of at least one general shareholder who is responsible to the extent of his entire fortune for the company's debts, and at least four limited shareholders who are responsible for the company's debts to the extent of their interest in the company's capital (Companies Regulation, Articles 149 to 156);
  6. Limited liability companies (Arabic: al-sharika dhat mas'uliyya al mahdudah, French: société à responsabilité limitée), which are the equivalent of Common Law limited liability companies (Companies Regulation, Articles 158 to 180);
  7. Variable capital companies (Arabic: al-sharika dhat ras al mal al qabil li tarir, French: société au capital variable), which are companies which provide in their articles of association or bylaws that their capital may be increased by additional payments made by the shareholders or by the admission of new shareholders, or that their capital may be reduced by withdrawal of shareholders' shares from the capital (Companies Regulation, Article 181 to 188);
  8. Co-operative companies (Arabic: al-sharika ta'awuniyya), which are joint stock companies or limited liability companies which are incorporated as co-operatives (Companies Regulation, Articles 189 to 209).

**The Companies Regulation** does not apply to companies incorporated by Royal Decree, which are usually government owned entities such as Saudi Aramco. In addition, the Companies Regulation prohibits foreign companies from issuing securities, unless prior approval has been obtained from the Ministry of Commerce and Industry.

---

The Companies Regulation provides that the capital of a company can consist of shares contributed in cash or shares contributed in kind and prohibits the personal creditor of a shareholder from collecting his debt from the shareholder's share in the capital of a company. The Companies Regulation also contemplates the conversion of one type of body corporate into another.

Two unusual features of the Companies Regulation are that it allows articles of association to prescribe the profits of each shareholder different from such shareholder's ownership of the capital of the company, and it requires that each company should have a minimum of two shareholders.

In addition to following the procedures contained in the Companies Regulation, foreign shareholders have to obtain the appropriate licences from the relevant government bodies and comply with other restrictions, both of which are not contained in the Companies Regulation.

**The most common entity is the limited liability company, which, as the name suggests, limits liability of the shareholders.** A limited liability company requires at least two but not more than fifty shareholders. This is the most common type of body corporate for foreign investment in Saudi Arabia. Limited liability companies are specifically prohibited from engaging in insurance and banking activities.

Apart from the flexibility of profits not being distributed in proportion to share ownership, shares in limited liability companies give equal voting rights to all shareholders. In addition, shareholders have the right of first refusal if another shareholder wishes to sell his shares to third parties. For limited liability companies, share certificates are not issued as share ownership is evidenced by the articles of association of the company and any changes in the company nationality or increase in the financial obligations of the shareholders requires unanimous approval of the shareholders.

The company's balance sheet, profit and loss account, report showing the activities and financial situation of the company and recommendations regarding the distribution of profits has to be prepared for each fiscal year and has to be audited by auditors licensed in Saudi Arabia. After completion of the above, an annual meeting of shareholders is required.

A limited liability company can be managed either by a General Manager or a Board of Managers (Board of Directors). In addition, if the limited liability company has more than twenty shareholders then a supervisory board consisting of at least three shareholders has to be formed to supervise the General Manager or Board of Managers.

---

The Companies Regulation also makes the managers (General Manager or Board of Managers) jointly liable for damages or injuries suffered by the shareholders, by the company, or by third parties due to the failure to observe any of the provisions of the Companies Regulation, the company's articles of association or faults in the performance of their duties. The shareholders can give written proxies only to other shareholders for representation at shareholders' meetings. The shareholders are also jointly liable, without any limitations, to third parties for the incorrect valuation of shares in kind; provided that such action is commenced within three years from publication of the summary of the company's articles of association in the Official Gazette.

Finally, the Companies Regulation provides that, if a limited liability company incurs losses in excess of or equal to half of its capital, the managers have to notify the shareholders, and the shareholders must meet to determine whether to dissolve the company or to maintain the company. Whatever the decision, such decision must be published in the Official Gazette. If the shareholders decide to continue the existence of the company, then the shareholders must inject further capital. If the shareholders fail to inject further capital and the company continues to do business, then the shareholders shall have joint personal liability for the company's debt.

The Companies Regulation heavily regulates joint stock companies as compared to other bodies corporate. The joint stock company is a limited liability company, which has the option to issue shares to the Saudi public. In order to incorporate a joint stock company, a licence is required from the Minister of Commerce and Industry. Furthermore, certain types of joint stock companies cannot be incorporated except pursuant to a licence granted by Royal Decree. Such types of joint stock companies are companies with government concessions, companies operating public utilities, companies receiving state subsidy, companies with participation from the government or other public body and companies carrying out banking or insurance activities. Ownership of joint stock companies is evidenced by share certificates, which can be issued in bearer form. Joint stock companies can also have different classes of shares including preferred shares. Subject to certain exceptions, shareholders in a joint stock company have preemptive rights unless the company's articles of association provides to the contrary.

As in a limited liability company, accounts of a joint stock company must be audited by auditors licensed in Saudi Arabia and the annual meeting of the shareholders is required. The management of a joint stock company is through a Board of Directors consisting of not less than three members each of whom must own not less than a certain specified number of shares.

Similar to a limited liability company, once losses equal or exceed three quarters of the capital of a joint stock company, the directors are obliged to call for a meeting of the

---

shareholders to determine whether to dissolve the company or to continue to maintain the company. In either case, the public has to be notified as to the action taken by publication in the Official Gazette. If the directors fail to convene a shareholders meeting or it is impossible for such meeting to pass a resolution, any interested person may apply for the winding up of the company.

Joint ventures are essentially unincorporated associations in the form of a consortium. If a foreign entity is a joint venture partner in an unincorporated association, it has to be either licensed pursuant to the Foreign Investment Regulation and commercially registered with the Ministry of Commerce and Industry or it must have a temporary commercial registration from the Ministry of Commerce and Industry in the event that such foreign entity is part of a consortium bidding for public sector contracts. For practical purposes, the joint venture is considered as a general partnership.

### **Commercial Agencies, Distributorships and Franchises**

The underlying statutory framework concerning commercial agencies, distributorships and franchises in Saudi Arabia is set out in the Commercial Agency Regulation, Royal Decree No. 11 of 20th Safar 1382 Hejra corresponding to 22nd July 1962 Gregorian, and the Rules for the Implementation of the Commercial Agency Regulations of 1981. The application of these two statutes to franchises arises from Ministerial Order No. 1012 of 1992 of the Minister of Commerce. For ease of reference, we shall refer below to commercial agencies, distributorships and franchises collectively as agencies, unless the context requires otherwise.

Article 6 of the Implementing Rules provides that no entity may act as an agent without being registered in the commercial agents' register of the Ministry of Commerce and Industry, and requires agency agreements to be registered with the Ministry of Commerce and Industry within three months from the agreement coming into effect, the ostensible reason being consumer protection, namely that after-sales service and the provision of spare parts is guaranteed.

The Service Agency Regulation of 1978 required that foreign parties who are not already licensed to conduct business in Saudi Arabia cannot perform contracts for the Saudi Arabian government or government agencies without having a registered service agent in the country, but that Regulation was repealed by Royal Decree No. M/22 of 16th Jumada Awal 1422 Hejra corresponding to 6th August 2001 Gregorian. Historically, registration of agency agreements was not crucial where only private sector sales were contemplated, because there are no Saudi Arabian laws which provide that a foreign party selling foreign goods to a Saudi Arabian private sector entity must have an agent or distributor in Saudi Arabia. In particular, until very recently there was no requirement that only a registered distributor may import specific brand goods into Saudi Arabia. However, in line with a tightening-up of

---

trademark protection following Saudi Arabia's accession to the World Trade Organisation on 11th December 2005, in recent months the Ministry of Commerce and Industry has made the import of high profile brand goods conditional upon the importer being the registered distributor, to prevent the import of pirated goods. To date, the application of this rule appears to be flexible, and determined by whether or not the concerned Ministry of Commerce and Industry officials are familiar with a given brand.

**Articles 10 and 11 of the Implementing Rules provide that agency agreements must satisfy certain minimum requirements by setting out, inter alia:**

- a. the rights and obligations of each of the parties;
- b. the obligations of both parties vis-a-vis consumers as regards the provision of maintenance and spare parts;
- c. the capacity and nationality of each of the parties;
- d. the subject of the agency;
- e. the area covered by the agreement;
- f. the services, works and goods covered by the agreement;
- g. the duration and method of renewal of the agency; and the mode of termination or lapse of the agency.

In 1982 the Ministry of Commerce and Industry first issued a recommended form of agency agreement, commonly referred to as the "model agency agreement", which was recommended to be used in agency and distributorship relations with foreign principals. The terms of this model agreement have been amended from time to time. Similarly, together with Ministerial Order No. 1012 was issued a model franchise agreement "for the guidance of franchise contractors". The use of any of these model agreements has never been mandatory, provided that the minimum requirements laid down by Articles 10 and 11 of the Implementing Rules are met. Apart from these formal requirements, the validity, effect and interpretation of agency agreements is governed by Islamic Law, which grants considerable freedom of contract to the parties to a contract. In general, the Saudi Arabian courts will give effect to the parties' common intention set out in the agreement.

It is the agent's duty to register the agreement. The principal has no actual involvement in the process. Registration of an agency does not afford an agent particular protection vis-a-vis the principal. The Saudi Arabian courts are not concerned with the registration of contracts and will, ordinarily, give effect to the common intention of the parties expressed in their written agreements, whether registered or not. The only context where registration

---

of an agency agreement gives the agent some advantage in Saudi Arabia is that, until a dispute between a terminated agent and the principal is finalized, in principle no new agent can be registered, thus depriving the principal of the opportunity to effect government sales in Saudi Arabia. However, a newly appointed agent can still effect private sector sales in the meantime, and, in appropriate circumstances, a newly appointed agent can apply to the Ministry of Commerce and Industry for a temporary registration of the agency, particularly if he can demonstrate that sale of the principal's products or services is in the public interest.

A new commercial agencies regulation has been under discussion since 1995, and has gone through numerous drafts in the meantime. Government sources have indicated that a final draft may now be ready. While earlier drafts were more restrictive on the principal's and agent's freedom of contract than under the current regime, current indications are that the parties to agency agreements may enjoy even greater freedom of contract under the new legislation.

## Competition Law

The first Saudi Arabian competition legislation was passed as the Competition Regulation, Royal Decree No. M/25 of 4th Jumada Awal 1425 Hejra corresponding to 22nd June 2004 Gregorian, which entered into force on 5th January 2005. Royal Order A/92 of 6th Ramadan 1425 Hejra corresponding to 20th October 2005 Gregorian established the Competition Protection Council, which operates under the umbrella of the Ministry of Commerce and Industry. By its Resolution No. 13/2006 of 25th Dhul Qada 1427 Hejra corresponding to 16th December 2006 Gregorian the Competition Protection Council issued the Implementing Rules of the Competition Regulation. The Implementing Rules envisage that the Council will promulgate further and more detailed rules concerning exemptions, dominance, mergers, law enforcement and procedures. These rules were issued in the form of Regulatory Guidelines under the Council's Resolution No. 25/2008 of 9th Ramadan 1429 Hejra corresponding to 9th September 2008 Gregorian. The Guidelines do not themselves have the force of law, but offer a good insight into how issues regulated in the legislation are likely to be applied by the Council.

The essential purpose of the Regulation is to protect and encourage fair competition, and to combat monopolistic practices affecting lawful competition. The Regulation applies to all business entities operating in the Saudi market, with the exception of public establishments and companies wholly owned by the State. The Implementing Rules further provide that the legislation applies to any activities taking place outside the Kingdom resulting in effects prejudicial to lawful competition within the Kingdom. Accordingly, a non-Saudi entity with no presence in Saudi Arabia can fall foul of Saudi competition law by engaging in a practice outside of Saudi Arabia, if that practice has an effect in the Kingdom contrary to the competition legislation.



---

**Broadly speaking, there are three major areas of law to be considered under the substantive competition legislation:**

- a. conduct that no business may engage in;
- b. additional restrictions on businesses in a dominant position
- c. restrictions on economic concentration

The generally prohibited practices include anything which is done with the intention of restricting trade or to disturb competition. Particularly singled out, and always illegal, are price fixing, obstructing competitors from entering the market, colluding in tenders or bidding, and selling below the cost price to squeeze out competitors. The additional restrictions on dominant businesses apply where the market share of a business entity or group of business entities reaches at least 40% of the total value of the sales throughout a period of 12 months and/or whereby a a business entity or group of business entities are able to influence the prevailing price in the market. Accordingly, even an entity with a market share below 40% can still be dominant if it is in a position to influence prevailing prices. A merger or acquisition which may result in an entity becoming dominant must be cleared by the Competition Protection Council. Broadly speaking, the distinction between the rules governing dominant position and those governing economic concentration is that (a) if an entity is already in a dominant position, it must not abuse such position, and (b) if it wants to achieve a dominant position by getting a 40% market share by acquisition or merger, it has to seek consent before doing so.

### **Taxation**

Currently Saudi Arabian income tax is not applicable to expatriate workers. Saudi Arabian citizens pay a religious tax (zakat) which is 2½% of the individual's net worth. There are no statutory deductions from the employee's wages, except for pension contributions in the amount of 5% for employees of Saudi Arabian nationality only.

Profits accruing to foreign investors are subject to income tax, which is regulated under the Income Tax Regulation, Royal Decree No. M/1 of 15th Muharram 1425 Hejra corresponding to 7th March 2004 Gregorian. Most types of business are taxed at a flat rate of 20% of profits. Net operating losses may be carried forward from one year to the next. The loss which has been carried forward may be deducted from the tax base of future taxable years until the cumulative loss is fully offset.

### **Labour Laws**

The main Saudi Arabian statute governing employer-employee relationships is the Labour Regulation, Royal Decree No. M/51 of 23rd Sha'ban 1426 Hejra corresponding to 27th September 2005 Gregorian, which entered into force on 26th April 2006 superseding the

---

Labour and Workmen Regulation, Royal Decree No. M/21 of 6th Ramadan 1389 Hejra corresponding to 15th November 1969 Gregorian. The new Regulation introduced only changes of detail, leaving the main framework of the old legislation in place.

With one of the world's highest birthrates at around 3%, and an expatriate population which in 2007 stood at 27% of the total population of 24 million, creating employment opportunities for its citizens has long been a high priority of the Saudi Arabian government. The Labour Regulation provides that the percentage of Saudi workers employed by an employer shall not be less than 75% of his total workers, but gives the Minister of Labour authority to decrease this percentage in case of unavailability of Saudi workers with technical expertise or academic qualifications, or if it is difficult to fill a given post with a Saudi citizen.

Since 18th June 2011 the Ministry of Labour has begun to implement a new **Saudization programme** known as **Nitaqat**. **The concept is that, based on the percentage of Saudi Arabian employees, businesses are classified as Excellent, Green, Yellow or Red, and that the employer will receive privileges or be subject to sanctions connected with the employment of foreign staff depending on the category it falls into. In general, employers in the Green and Excellent categories will find it easy to obtain work permits for foreign staff, while employers in the Yellow category may only renew current work permits without being granted new ones, while employers in the Red category will not, eventually, even be able to renew existing work permits.** Part of the Nitaqat programme is a detailed list of quotas which are determined by the business sector and size of the business entity. For example, a petrochemicals business with 500 employees requires at least 45% Saudi Arabian employees to be in the Green category, while a general manufacturing business of the same size requires only 20% Saudi Arabian employees to be in the Green category.

Women may be employed, but work permits for non-Saudi women tend to be restricted to the health, education and air transport sectors. There are no restrictions on the employment of Saudi women, provided that the appropriate working environment is provided.

Article 8 of the Labour Regulation states that an agreement whereby the employee waives any rights established in his favour by law is null and void, and that he may not forsake any rights which he has acquired in the course of his employment. Employment contracts must be in writing, but the employee's rights are not prejudiced if his employer has failed to execute a written agreement. Employment contracts must state whether they are for a fixed term or an indefinite term, specify the employee's salary and whether he is paid monthly or otherwise, list the employee's benefits, if any, and state whether or not a probationary period applies. Otherwise, most aspects of the employment relationship, such as working hours, holidays and rights of termination, are governed by the Regulation and need not be

---

set out in the employment agreement. There is at present no minimum wage in Saudi Arabia.

Normal working hours are eight hours per day for six days a week. Work in excess of 48 hours per week must be compensated at overtime rates, except for certain categories of work, primarily of relevance in the catering trade. Saudi Arabian public holidays are set by the Minister of Labour under the Regulation, and may not exceed ten days per year. During Ramadan, the month of fasting, the maximum working hours for Muslim employees is reduced to six hours per day for six days a week for a total of thirty-six hours. It is common for Muslim employees to receive a thirteenth month's salary on the occasion of the Eid Al Fitr public holiday, which marks the end of Ramadan.

A workers' compensation plan exists under the direction of the General Organization for Health and Social Security (GOSI). For both Saudi employees and expatriate employees, employers must contribute an amount equal to 2% of their salary towards a workers' compensation and disability plan administered by GOSI, which is regulated in some detail in the Social Insurance Regulation, Royal Decree No. M/22 of 3rd Ramadan 1421 Hejra corresponding to 29th November 2000 Gregorian. The retirement scheme is administered by GOSI, but covers only Saudi nationals. Contributions on behalf of Saudi employees equal 18% of an employee's wages, with the employer contributing 9% and the employee contributing 9%. While there is no government health plan, medical and hospital care is free for Saudi citizens. For all non-Saudi employees, and for Saudi employees who want to be covered, health benefits are required to be provided by the employer depending on the number of employees in a particular geographic area.

The Labour Regulation provides for prevention against major industrial accidents in high-risk facilities and vocational injuries. A high-risk facility is defined as one that produces hazardous substances or a facility that handles, removes, or stores such hazardous waste. Employers will have to coordinate with the Ministry of Labour to determine the status of their facilities based upon guidelines that will be issued by the Minister. Furthermore the Minister of Labour will issue decisions that will set forth the necessary safety arrangements to be made by the employer and the employer's obligations in this regard including prevention of major accidents and limiting the risks of major accidents.

Under the Labour Regulation employers are responsible for any vocational injury that an employee may sustain while working. An employer is obligated to provide treatment to his employee and pay all expenses related to the vocational injury.

---

It is generally accepted, and has been ruled in the past by the Commission for the Settlement of Labour Disputes, that the salary and benefits under a fixed term contract, as well as the employee's status, may not be reduced during the contract term. However, at the end of a fixed term contract the parties may re-negotiate their respective positions, provided that the employee is given a clear choice whether or not he wishes to accept the new employment conditions. In the past it was also accepted that an employee enjoyed the same protection under an indefinite term contract. However, in recent years the view has emerged that, if an indefinite term contract is terminated upon proper notice, it may be possible to "re-hire" the employee on new terms with reduced wages and benefits, particularly where the employer can demonstrate that there are valid reasons for such change.

The Regulation sets out provisions concerning end-of-service awards, to which most employees are entitled in principle unless they are dismissed for cause. Pursuant to Article 84, when a fixed term employment agreement comes to an end, or when an employer terminates an indefinite term agreement other than for cause, the employee is entitled to one-half of one month's wages for each of the first five years of employment and a full month's wages for each year of employment thereafter, in both cases pro-rated for part of a year's service. An employee who resigns during the term of a contract receives no end-of-service award for the first two years of employment. There are further detailed rules concerning the end-of-service award payable to an employee who resigns in the course of a contract for periods exceeding two years. The wages by reference to which an end-of-service award is calculated includes base salary, overseas service premiums, regular bonuses and additional benefits which are paid on a regular basis, such as housing and transport allowances. The only payments which are excluded from such calculations are extraordinary bonus or incentive payments like commissions and percentages on sales, which have been identified as such by an express written agreement between the parties. The wage is calculated by adding the last three payments which the employee received and dividing them by three, to arrive at a monthly average. In accordance with Article 8 of the Regulation, an employee cannot contract out of his right to an end-of-service award.

The Ministry of Labour has published Model Disciplinary Rules, pursuant to which non-summary dismissal must follow written warnings in respect of transgressions committed by the employee. Summary dismissal is regulated by Article 80 of the new Regulation, which lists nine reasons for which an employment agreement may be cancelled without notice or payment of the end-of-service award. These include acts of physical violence, the commission of offences, and sabotage at the workplace. An employee can contest his dismissal by lodging a complaint with the Labour Office, and, if an amicable settlement is not achieved, the matter is referred to the Labour Dispute Settlement Authorities. It is common for employees who have been found to be dismissed unjustly to receive the equivalent of three months' wages as compensation.