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**TABLE OF CONTENTS**

	<b>Page</b>
<b>Vision and Mission Analysis of Selected Saudi Organizations</b> _____	<b>1</b>
<i>Sundaram Nataraja</i>	
<i>Mostafa M. Kamel</i>	
<i>Zia Ul-Haw Paracha</i>	
<b>King Saud University's Strategic Plan Formulation (KSU 2030)</b> _____	<b>13</b>
<i>Salem S. Alnassar Alqahtani</i>	
<b>Saudi Telecom Company: Rapid International Investments and Divestments</b> _____	<b>38</b>
<i>Abdulrahman Al-Aali</i>	
<i>Mostafa M. Kamel</i>	
<b>What, Who, How, and Where: Retailing Industry in Saudi Arabia</b> _____	<b>54</b>
<i>Kokku Randheer</i>	
<i>Abdulrahman Al-Aali</i>	
<b>To Align or Not to Align the HR Strategy; That is the Question</b> _____	<b>70</b>
<i>Nisar Ahamad Nalband</i>	
<i>Hanan Abdulrahman Alankari</i>	
<b>Yatooq: A Saudi Female Entrepreneur Innovates Arabian Coffee</b> _____	<b>90</b>
<i>Abdulrahman Al-Ali</i>	
<i>Sobia Ayub</i>	
<b>Saudi Telecom Company: Customer Focus</b> _____	<b>103</b>
<i>Mohammad Almotairi</i>	
<i>Soad Almeshal</i>	

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**JOURNAL OF COMPETITIVENESS STUDIES**

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**Special Issue**

**Abdulrahman Al-Aali, Guest Editor**

**Business Cases from Saudi Arabia**

I take this occasion to thank all those who have contributed to this special issue of *Competitiveness Studies*. I thank the reviewers who provided timely feedback to the authors, thereby helping to improve the manuscripts. I extend a special thanks to the Editor-in-Chief, Abbas Ali, for giving me the opportunity to serve as guest editor of this special issue, the first of two that will feature business cases from Saudi Arabia. I cordially thank all of the authors who submitted manuscripts for consideration. I appreciate their desire to share their knowledge and experience with readers and business professors in Saudi Arabia, the GCC countries, and the Arab World in general. The eight cases included in this issue concern entrepreneurship, human resource management, international business, marketing, and strategic management.

I acknowledge and greatly appreciate the funding King Saud University (KSU) provided to enable the creation of business cases set in an Arab context. They are sorely needed. KSU is the Arab World's premier university. Ranked among the top 150-200 universities in "The Academic Ranking of World Universities," also known as the Shanghai ranking, KSU scores high in many international rankings. To its credit, KSU's College of Business Administration took on the challenge of developing cases about issues in Arab businesses specifically to meet the needs and interests of Arab business students and other readers. This is probably the largest collection of such cases to date. I applaud KSU and the Business College for initiating this project. Many individuals participated in this journey from case idea through final acceptance and delivery. To them all, I say: Thanks for a job well done.

Abdulrahman Al-Aali, PhD  
Special Guest Editor

**About The Guest Editor**

Abdulrahman Al-Aali is a Professor of International Business and Marketing at the College of Business Administration, King Saud University, Saudi Arabia. He gained his BBA, MBA, and PhD in International Business at Georgia State University. He is the Director of the PhD in Business Program and a Visiting Research Scholar at Indiana University in Pennsylvania. He was a Fulbright Fellow at the George Washington University and former Dean of King Abdullah Research & Consulting Institute. He was a Trustee of Prince Sultan College of Tourism & Business and is currently a Trustee of Albaha College of Sciences. He has authored or co-authored ten books and over 36 academic articles. He has consulted for many agencies including the United Nations Development Programme, Ministry of Higher Education, Ministry of Commerce on World Trade Organization issues, and is currently a consultant with UN-Habitat on the Future of Saudi Cities Program.

## **WHAT, WHO, HOW AND WHERE: RETAILING INDUSTRY IN SAUDI ARABIA**

**Kokku Randheer, Abdulrahman Al-Aali**

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“You should always be strong to be big in the future and not big to become strong.”

Frederic Levy-Perrault, Carrefour CEO for Saudi Arabia

Talk at Marketing Club (May, 2014)

College of Business Administration, King Saud University

### **INTRODUCTION**

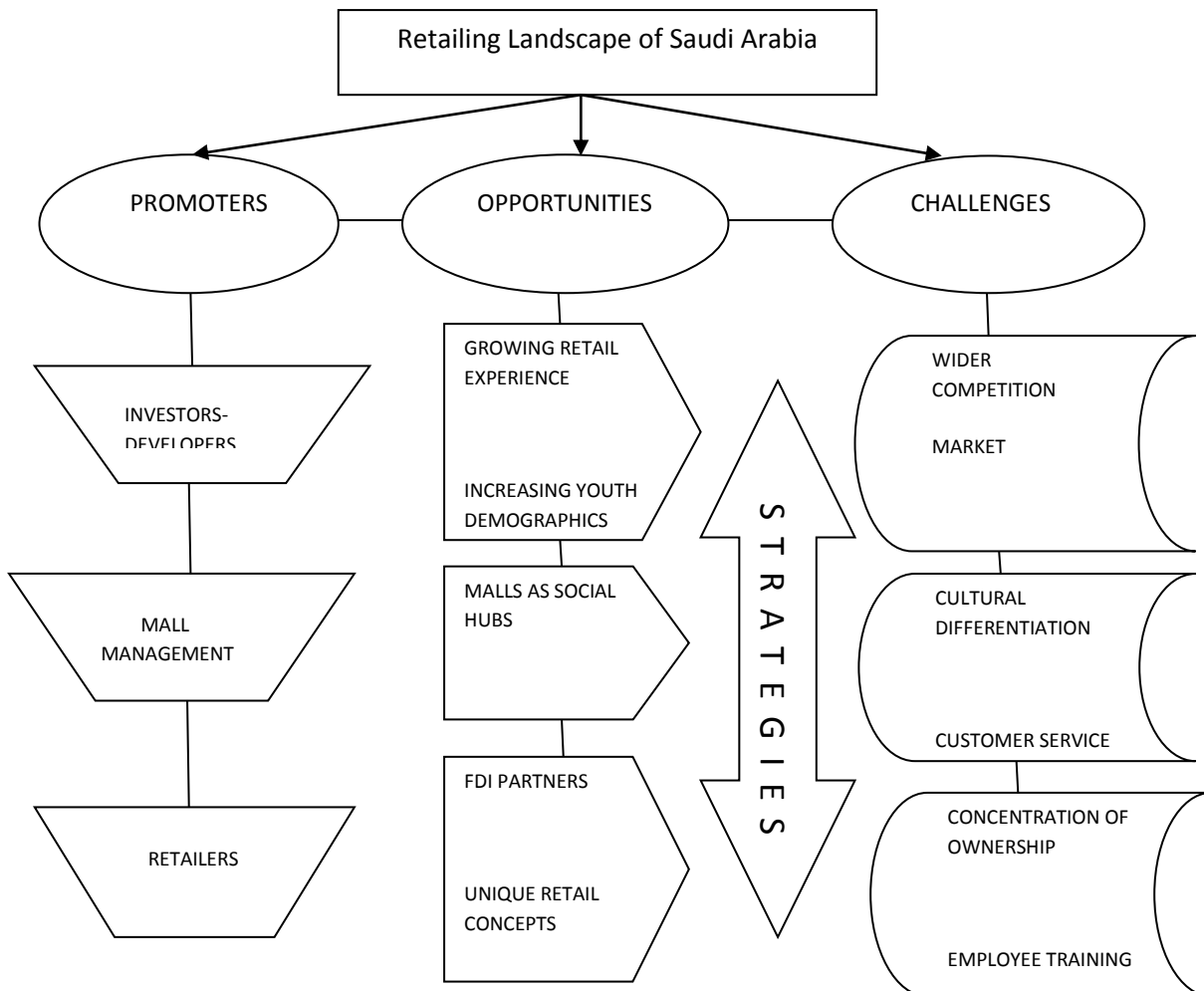
Retailing in Saudi Arabia is a very old activity that dates back approximately 2000 years. Mecca was a trade center, and drew traders from all across the Middle East, who visited and engaged in commercial activity, buying and selling goods. The establishment of modern supermarkets in Saudi Arabia is of very recent origin (Yavas and Tuncalp, 1983). It dates back to 1979, with the opening of the Souks Company, Ltd. in Dhahran, which operated under British management. This case will describe the present status of Saudi Arabia's retailing industry, describe current key players and how they operate, and finally, the case will take a look at where Saudi Arabia's retail industry is headed.

As is true in other developing and emerging nations, Saudi Arabia's retailing industry today can be categorized into organized and unorganized sectors. In recent years, the industry has seen the steady growth of large, organized retailers and, in the near future, Saudi Arabia's retail space will be dominated by these large retail companies (see Figure 1 on Saudi Arabia's present retailing landscape, [www.sachaorloffgroup.com](http://www.sachaorloffgroup.com), Jan 2012).

Today's total retail market includes a grocery segment with 35 percent of the market, and a non-grocery segment with 65 percent of the market, with the overall market achieving a six percent growth rate in 2013, with approximately 265 billion Saudi Riyals, compared to 250 billion in 2012 ([arabnews.com](http://arabnews.com), May 2014). Originally projected to reach 11 percent (A.T Kearney, 2013), this actual growth rate is still impressive. Retailing accounts for about 17 percent of the country's gross domestic product (GDP). The organized sector accounts for 44 percent of the retail market, and is expected to account for 65 percent of the retailing market

by 2020 (www.arabnews.com, May 2014). The retail industry in Saudi Arabia includes large, medium and small grocery stores. It is expected to grow significantly in the next ten years (www.arabnews.com, accessed Dec 10, 2013) because the middle class is growing at the fast rate of 13 percent each year (arabnews.com, Mar 2013).

**FIGURE 1: RETAILING LANDSCAPE OF SAUDI ARABIA**



Source: [www.sachaorloffgroup.com](http://www.sachaorloffgroup.com), Jan 2012. Adopted and modified.

In last two decades, organized and multi-product/multi-outlet companies have expanded aggressively, and targeted consumer segments have responded well. Multi-national retail companies and brands, such as Carrefour, Euromarche, Danube, Debanhams, IKEA, LuLu, Extra, H&M, Bershka, New Look, Galeries Lafayette, Burberry, Children's Place, F&F fashion, Zara, Furla and Liu Jo have been drawn to Saudi Arabia's growing retail market (www.arabnews.com, Dec 2011) and many more international brands are now in the pipeline to enter its market.

Saudi Arabia began permitting foreign direct investment (FDI) in the retailing sector in the early 2000's. The importance of the retail sector's contribution to the national economy is undisputed. Economists agree that giving the retail sector a thrust will not only boost the national economy; it also has the potential to help rejuvenate specific targeted sectors,

including the semi-urban and rural sectors. However, the outflow of money from the economy due to the large number of foreign retail operators has also drawn criticism ([www.arabnews.com](http://www.arabnews.com), Accessed Jul 3, 2013).

Overall, however, it is clear that the retail sector is leading the way toward a more diversified economy and helping Saudi Arabia to reduce its dependency on oil revenues, which is one of the Kingdom's key goals.

Saudi Arabia's competitive retail landscape is largely dominated by family businesses that have operations across a number of other sectors as well. The retail league includes the largest shopping center developers and landlords in the country. Family-owned businesses have focused on acquiring exclusivity and franchise agreements with well-known international suppliers and brands. Among them, some large companies dominate the branded apparel market listed above, each representing a considerable number of international franchises. Their role is mainly concentrated in the distribution of labels and brands through franchises and joint ventures.

There are a few smaller companies with less than five to ten international franchises, as well as small retailers, who own one or more shops, and still represent an important market segment. With low overhead, these retailers are able to offer very competitive pricing on their products, especially in the category of medium to low-priced goods. There are also brands which operate independently, such as LVMH, PPR and Richemont Group, who own the totality or a majority stake in their luxury brand portfolios.

Despite these successes, there is another, less optimistic side of the retail story, with some retailers failing because of fierce competition ([www.arabnews.com](http://www.arabnews.com), Aug 2012). These have included the Giant hyper stores acquired by Azizia Panda, and Saks Fifth Avenue which quit the market, leaving a 65,000-square-foot store in Riyadh.

## **FACTORS DRIVING RETAILING INDUSTRY GROWTH**

### **Demographics**

Saudi Arabia, with a population of approximately 28 million (as of 2011), has the GCC region's largest retailing market (AlJazira Capital, 2012). Its population, expected to reach 50 million by 2025, is overwhelmingly young, which bodes well for its future market growth. Half the population (50 percent) is between the ages of 15 and 40 (see Table 1), with 32 percent of the population below 15 years of age.

Other key demographics suggest the country will see tremendous growth in retail spending, since these younger segments of Saudi Arabia's population have higher educational achievements rates, prefer a modern lifestyle, are quick adopters of modern technologies, are inclined toward western culture and – increasingly – are city dwellers. According to the United Nations, demographic growth will continue rising by two percent a year, for the next three years, led by an urban population growth rate of 2.2 percent versus a growth rate of just 0.7 percent for rural areas, numbers that reflect significantly increased migration to urban

areas. The population is expected to rise to 28.6 million by 2015, when 45 percent of the population will be between the ages of 19 and 45.

**TABLE 1: DEMOGRAPHICS OF THE KINGDOM OF SAUDI ARABIA (KSA)**

Age category	Population in Million
80+	0.1
60-79	1.0
45-59	3.0
30-44	6.9
15-29	7.1
0-14	8.5
Total	26.6

Source: KSA Retail Sector 12<sup>th</sup> July, 2012, AlJazira Capital.

### Disposable Income

Saudi Arabia has witnessed a steady growth in personal disposable income levels (see Table 2), which bodes well for consumer sectors such as electronics, grocery, and retail apparel. More spending power in the hands of the country's young population is creating increased demand for better quality and diversified products, more supermarkets and hypermarkets, and the entry of a slew of foreign brands into the country.

**TABLE 2: DISPOSABLE INCOME OF THE YOUNG IN SAUDI ARABIA IN RIYALS\***

Year	Personal Disposable income	Household consumption
2007	17500	17000
2008	19400	19000
2009	21800	21800
2010	23100	23300
2011	25500	25800
2012	26600	27200
2013	27300	27900
2014F	28100	28800
2015F	29200	29700
2016F	30400	31000

Notes: F = Forecasted; Saudi Arabian Riyal (SAR)  
Source: KSA Retail Sector, July 12, 2012; AlJazira Capital

### Strong Underlying Fundamentals

A 2013 year-end report by Saudi investment firm Al Rajhi Capital delivered more good news about the retail sector, reporting that retail was one of the best performing areas of the Saudi economy in 2013, providing better returns on investment than agriculture and petrochemicals. The retail sector's fundamentals remain strong, and it is likely to continue robust growth moving forward. Consumer spending is rising in response to improved employment among locals and sustained government spending.

Both Kearney (A.T Kearney, 2011) and Al Rajhi (Al Rajhi Capital, 2013) projections for the sector forecast the strongest expansion in the large-store retail segment, due to shifting consumer preferences. This will likely open up investment and business opportunities in a range of sectors (EIU, April, 2014), including construction, with sale of construction materials and supplies booming, as Saudi Arabia's stock of retail space expands. Other indications show that point-of-sale transactions stood at SR10.3 billion in October 2012, a rise of 14 per cent, compared with 2011. Withdrawals from automated teller machines (ATMs) passed SR55 billion in 2012, up from SR50.1 billion in 2011, indicating robust consumer confidence in the wider economy. The Euro-monitor Report (EIU, April 2014) pointed to legislation that eased restrictions on foreign investment in the sector (especially with the Kingdom joining the WTO) as another key factor boosting retail activity, in addition to high per capital disposable income, the real estate boom and expanding retail operations.

### **Brand Conscious Consumers**

Saudi consumers value established and well-known brands. This heightened brand consciousness is largely driven by the emergence of a large population of young people in Saudi Arabia, coupled with the fact that women represent more than 50 percent of consumers. The size and growth rate of this population, together with its youthfulness, makes it a lucrative market for consumer products. Saudi consumers are increasingly becoming modern shoppers with sophisticated brand tastes, influenced by global media through satellite television.

In addition to consumer trends, the retail industry has also benefited from Saudi consumer confidence, which is very high in the GCC region, with many consumers excited by the retail sector's innovation – new retail formats, new product launches, and new promotion offers (A.T Kearney, 2013).

### **Expatriate Population**

The non-Saudi population accounts for approximately a third of Saudi Arabia's total population, and has grown over time, reflecting the country's dependency on employment of expatriates, who constituted 58 percent of the workforce in 2011 (see Table 3). This population is expected to remain a substantial portion of the Saudi workforce in the future. Analysis of expatriate remittances reveals that expatriate income and savings levels have steadily increased. This is a consumer group therefore that cannot be ignored.

Since most left their home countries to earn and save as much as possible, these shoppers tend to be more price conscious than Saudi citizens. They respond to sales, free offers, discounts, and gifts rather than brands and high-quality labels. Opening up discount stores is an opportunity for Saudi retailers to cater to this segment. That is why, according to the EIU, a company like Alhokair is planning to roll out 200 discount stores under its "Easy" brand. Similarly, in late 2011, the UAE-based Convenience Arabia announced plans to open 60 "Circle K" stores in Riyadh, with the option of opening another 400 outlets in petrol stations owned by Aldrees, the country's largest retail petrol dealer.

**TABLE 3: SAUDI ARABIA POPULATION**

Year	Expatriates	Saudi Nationals
2003	3.49	3.12
2004	3.88	3.30
2005	4.00	3.37
2006	4.09	3.43
2007	4.14	3.60
2008	4.26	3.76
2009	4.31	3.84
2010	4.88	3.96
2011	5.79	4.14

Source: [www.sachaorloffgroup.com](http://www.sachaorloffgroup.com), Jan 2012

### **Religious Tourism**

Saudi Arabia has a unique role as custodian of the world's two Holy Mosques, which attract 1.8 billion Muslims worldwide for pilgrimage visits. More than 2.5 million religious pilgrims are estimated to visit Saudi Arabia during Hajj celebration, with more than seven million performing the Umrah pilgrimage throughout the year. The overall number of pilgrims visiting Saudi Arabia has been estimated by some at more than 12 million (A.T Kearney, 2013). Makka Al Mukarramah and Al Madīna al Munawwarah together receive more foot traffic than any of the world's other sites. The economic impact is considerable according to the Saudi Tourism Information & Research Center, which estimated that SR25.9 billion was spent on inbound tourism in Saudi Arabia, while tourist trips generated SR25.6 billion in spending.

Major infrastructure development programs have focused on the Makkah Al Mukarramah and Al Madīnah al Munawwarah sites, with the Saudi government creating a new upscale environment to support increasing religious visitation to both mosques. Retailers are expected to rebuild in line with that infrastructure development. The Saudi government is also taking steps to encourage investment in upscale hotels, apartments, and high-quality retail outlets, as well as shopping arcades, positioning both cities to continue boosting retail spending by the millions of pilgrims who visit annually (MAS, 2010).

### **UNORGANIZED RETAILING**

While larger in size, Saudi Arabia's retail sector is still evolving, as compared to the more developed retail sectors in other GCC countries, which benefit from an open economy strategy. Although big-ticket retail format stores (supermarkets and hypermarkets) have sprung up in Saudi Arabia, market penetration for this retail segment remains relatively low, compared to other global markets. In fact, small convenience stores, called "Bakalas," currently dominate the retail sector, capturing around 59 percent of the market share (see Table 4).



**TABLE 4: SMALL OUTLETS (BAKALAS) DOMINATE SAUDI ARABIA'S RETAIL MARKET**

Retail format	Percentage of Representation in Retailing
Hypermarkets	16%
Supermarkets	25%
Small outlets	59%

Source: Imagesretailme.com, October 2012.

### SHOPPING MALLS

Shopping malls are making a unique contribution to the retail industry's growth in Saudi Arabia, where both cultural and climate factors have paved the way for shopping mall development (see Table 5, listing Saudi Arabia's shopping malls by region). In addition to the country's increasing demand for products that are of good quality, its younger consumers are drawn to the unique shopping and lifestyle experience provided by family-oriented malls.

In Saudi Arabia, one of the wealthiest Arab state, both shopping malls and retail spending are growing. Riyadh and Jeddah have 0.20 square miles per capita of available retail space which can be developed over the next decade. Consumers are sure to follow, with foot traffic increasingly gravitating to retail spending in shopping malls.

Given these trends, most of Saudi Arabia's major cities expect to see a strong increase over the coming years in retail space, mostly in malls. Riyadh alone expects to develop an additional 600,000 square meters or more by 2014, on top of its existing 2.3 million square meters of leasable area. Much of this space will come through developments in the city's suburban areas. Total mall space in Riyadh is expected to reach 1.5 million square meters by 2015, up from its current 1.2 million. Retail space is expanding in both Riyadh and Jeddah as new large retail malls are developed. It is believed that rental rates will consequently decline slightly, while poorly performing malls will see higher vacancy rates. This scenario could produce lower costs and, in turn, better profit margins for those retailers who lease out their space over the next few years.

According to Jones Lang LaSalle (JLL-MENA.com), the average rental value of retail space in Riyadh had increased to SAR 2,520 per square meter per year by the end of 2012. Rents in prime location malls are expected to rise slightly after 2015. However, average retail rental rates will see only a limited increase on account of downward pressure from lower-priced rentals in malls that are not in prime locations.

The next major quality retail projects expected to be delivered by the end of 2014 are the mixed-use King Abdullah Financial District (KAFFD) and the Nakheel Mall. This will keep retail rentals and occupancy rates in check in the traditional districts of Olaya, Malaz, and Bathaa. Average rental rates for retail space in Jeddah, another important city, were SAR 2,394 per square meter per year in 2012. One mall with a retail area of 46,000 square meters was added in 2013, with no major retail space expected to be added. As a result, average mall vacancy rates in Jeddah have remained at 4 percent, which is quite low compared to 11

percent in Riyadh, which is due to healthy demand. However, with more than 70,000 square meters expected to be added to the total retail stock every year from 2014 onward, a long-term decline in rental rates is expected.

**TABLE 5: SELECTED SHOPPING MALLS IN SAUDI ARABIA BY REGION**

Central (Riyadh)	West Coast	West Coast	East Coast
Al Azizia Mall	Al Azizia Hyper Panda (M)	Serafi Mega Mall (J)	Al Rashid Mall (K)
Al Othaim Mall	Al Hasan Mall (M)	Sultan Mall (J)	Fouad Center (K)
Euromarche Shopping Center	Al Rashed Mega Mall (M)	AlTahlia Shopping center (J)	Al Juma'a City Center (K)
Khurais Plaza	Al Salam Plaza (M)	Andalus Mall (J)	Mall of Dhahran (D)
Faisaliah Shopping Mall	Bin Dawood (M)	Mall of Arabia(J)	Al Shatea Mall (DM)
Rimal center	Abraj Al Bait Mall (MK)		Al Waha (DM)
Riyadh Sahara Mall	Diyafa Mall (MAK)		Ibn Khaldoun Plaza (DM)
Granada Center	Al-Hijaz Mall (MK)		Marina Mall (DM)
Kingdom Center	Aziz Mall (J)		
Le Mall	Hera Avenue (J)		
La Centria Mall	Al-Hijaz (J)		
Nujood Mall	Jareer Mall (J)		
Hayat Mall	Le Mall (J)		
Silicone Mall	Al-Najar (J)		
Localizer Mall	N2 Mall (J)		
Riyadh Gallery	Oasis Mall (J)		
Akkariya Buildings	Rawshan Mall (J)		
Al Mousa Center	Rawshana Mall (J)		
Olaya Mall	Red Sea Mall (J)		
Sahara Plaza	Sawari Landmark (J)		

Notes: Cities, (M) Medinah; (MK); Makkah; (J) Jeddah; (K) Khobar; (D) Dammam; (DH) Dhahran

Source: Wikipedia (Shopping malls in Saudi Arabia by region)

### ORGANIZED RETAILING

Organized retailing in Saudi Arabia ranges from mini-markets and supermarkets to hypermarkets and giant stores. These markets sell products across multiple categories, including food stuffs, groceries, garments, footwear, electronics, electrical appliances, furniture, plastic products, stationery, sports equipment, luggage and travel bags, glassware, metal ware and toys (see Table 6).

**TABLE 6: PRODUCT CATEGORY BY PERCENTAGE OF RETAIL SALES INCOME (SAR)**

Year	2008	2010
Product Category		
Machinery, appliances and equipment	117.3	99.0
Transport equipment	77.6	73.6
Food Stuffs	62.2	63.2
Chemicals	53.0	56.7
Metal products	66.0	49.5
Other goods	41.7	45.2
Textiles and clothing	13.9	13.4

Source: Market Indicators and Forecasts, Saudi Arabia, EIU, April, 2014.

In 2012, Saudi Arabia's retail businesses employed 189,085 workers drawn from the local population (Saudi Hollandi Capital, 2012). The national Saudization/Nationalization policy has had a considerable impact on employment of the local population in the organized retail sector ([www.arabnews.com](http://www.arabnews.com), Accessed Mar 19, 2014). Moreover, the Kingdom's organized retail sector still has enormous potential to generate employment opportunity, with 30 percent more new retail jobs expected to be created in the next decade, making it Saudi Arabia's biggest employer, in terms of sheer numbers (Saudi Hollandi Capital, 2012).

Organized retailing in the Kingdom has grown rapidly in major cities, such as Riyadh, Jeddah, Dammam, Khobar, and in other smaller cities. Retailers have targeted major cities because they are home to 90 percent of the population. Among targeted urban customers, 85 percent are middle class, 10 percent are wealthy, and 5 percent have low incomes. More than 90 percent of Saudi retail customers are literate and educated. The average family has five members. The average family income per month is 8500 Saudi Riyals.

### **ORGANIZED RETAIL SECTOR COMPANIES**

In Saudi Arabia, the local retail sector is uniquely dominated by family-owned business groups who focus on acquiring exclusivity and franchise agreements with well-known international suppliers and brands. In addition, these private groups have well-diversified business activities and solid investments in real estate and land, and their combined business and investment activities are also contributing to the expansion of retail activities within the Kingdom. The key players in this arena are Al-Othaim, Al Hokair, Savola Group, Jarir, Majid Al Futtaim, Bin Dawood, and LuLu, which together account for roughly 60 percent of the organized retail market.

### **Abdullah Al-Othaim Group**

Abdullah al-Othaim Markets Company (al-Othaim) started its operation as a small food trading entity under the name of Saleh al-Othaim Trading Est. in 1956. Starting in 1981 the company began expanding its operational focus by opening wholesale and retail stores. In the early 1990's, the company further expanded its focus by starting to build wholesale and retail malls and warehouses. Since then, the company has consistently expanded, so that across the Kingdom by the end of 2012, it had 108 retail, wholesale, and corner stores, as well as warehouses, including 76 super and hyper markets. According to EIU, al-Othaim was ranked third in the KSA food retail industry, with an estimated market share of 2.5 to 3 percent, and by 2011, it occupied 13.3% of the Kingdom's retail sales space. The company is ranked second nationwide, in term of the number of outlets it has. The company's wholesale and retail sales are mainly based on well-recognized brands through United Marketing Center. Moreover the company's bakery segment is backed up by a central bakery; the Zod factory is al-Othaim's key supplier of fresh food products.

### **Fawaz Abdulaziz Al-Hokair & Co.**

Al-Hokair began operating in 1990 as a retailer and wholesaler of ready-made textiles and clothes, shoes, and perfumes. The company expanded its focus later on, introducing foreign brands to the local retail market through franchising. The company's strategy enabled it to establish itself as one of Saudi Arabia's leading fashion retailers. The company's expansion strategy since 1997 has mainly relied on (i) geographic expansion within and outside the Kingdom, and (ii) stretching each brand's portfolio through acquisition of new franchises. By March 2012, Al-Hokair's was operating 1,176 stores, of which 995 stores are located inside the Kingdom. The company has grown to offer a wide range of branded fashion products including apparel, cosmetics, footwear, and other items; its inventory spans 78 commercial brands. Given the company's comprehensive offerings and operational focus, Al-Hokair currently has very limited competition. Broad-based recognition in the domestic market helped the company promote its image in the Saudi fashion retail market. The company now dominates the local fashion retail industry and is a potential franchiser for any new mid to high-end brand. The company plans a continuous expansion strategy to sustain growth and increase its total number of stores. The anticipated acquisition of existing franchisee businesses to promote new brands is also expected to have a positive impact on sales.

### **Savola Group**

The group operates via four vertical businesses: (i) production and processing of food items; (ii) manufacture of plastic packaging products; (iii) retail (distribution of clothes, cosmetics ownership, and operation of supermarkets, hypermarkets and department stores); and (iv) real estate property investment, development and management.

Savola, through AlAzizia Panda, is the biggest player in Saudi Arabia's retail grocery market. The group currently has 90 supermarkets and 41 hypermarkets. Since the share of organized retail in KSA's grocery market is low, network expansion is one of the most important tools for organized retailers to gain market share. Savola Group is better placed to undertake network expansion than any of its peers. While the group owns 30–35 percent of

KSA's large retail outlets, it plans to add 50 supermarkets and 19 additional hypermarkets by 2015.

### **Majid Al Futtaim**

The Majid Al Futtaim Group of companies was founded with capital entirely from the United Arab Emirates (UAE), and soon after proving itself in the Arabian Gulf region, became the largest and most successful business group in the Middle East. Through an agreement with Carrefour France to create the MAF Hypermarkets Company, Majid Al Futtaim became the group with the premier trade mark of Carrefour in the Middle East region and beyond. Moreover, it was the first to introduce the hypermarket concept into the region, moving on to become a successful hypermarkets operator.

Majid Al Futtaim's Saudi "Carrefour" Hypermarket Company in the KSA was founded in 2004 and it became one of the largest and most unusual companies in the group. The company follows yearly researched plans to expand its market reach, and has so far opened more than ten branches, which are found in all the Kingdom's major cities.

### **RETAILERS IN THE ORGANIZED SECTOR**

There are many KSA retailers who have developed a brand name. This study discusses just a few of the retailers who have made the greatest impact on the Kingdom's retail industry (see Table 7).

**TABLE 7: TOP FIVE RETAILERS IN SAUDI ARABIA**

Retailers	Stores	Sales area (m <sup>2</sup> )	Average Sales area (m <sup>2</sup> )	Grocery Sales (USD) in Million	Market share in %
Panda	144	628500	4365	1742	4.2
Bin Dawood	30	205000	6833	929	2.3
Al Othaim	108	162440	1504	879	2.0
Carrefour	17	107000	6294	683	1.7
Farm	43	115850	2694	327	0.8
Total	324	1218790	4344	4560	11.9

Source: A.T Kearney 2011 GRDI

### **Azizia Panda**

Panda United was founded in 1978 and has become one of the most important organizations in Saudi Arabia's retail sector. In 1994, Panda merged with Azizia Company; then in late 1998, Azizia Panda United (APU) was acquired by Savola Group, a leading retail company specializing in food products. This acquisition boosted APU's growth and expansion, enabling the company to gain the largest market share in KSA's retail sector. In 2008, APU advanced its regional expansion plans when Savola Group acquired "Giant" supermarkets in Saudi Arabia and Lebanon and then merged them with Azizia Panda United. This deal increased APU's share of the retail sector from seven to eight percent. The vertical acquisitions led APU to have over 100 million visitors in the year 2010 alone.

APU operates and manages over 150 supermarkets and hypermarkets within and outside Saudi Arabia. Its large workforce includes more than 15,000 employees. Within its stores, APU also exclusively sells “Panda” products. These products have quickly gained success and have become one of the leading choices available to customers, through their combination of high quality and competitive pricing.

Panda strives to satisfy the needs of the entire family under one roof. APU’s mission is to become the first in the regional retail sector by delivering high quality customer service and constant innovation. For operational efficiency, it created a company philosophy stressing the values of trusting, accepting, approaching, and caring. To address external environmental issues, it emphasizes confident humility, apprenticeship, fierce resolve, and relentless pursuit of perfection. To contribute to social welfare, APU also initiated a corporate social responsibility (CSR) policy. APU considers social responsibility an essential part of its effort to be an active member of Saudi society.

### **Carrefour**

When Carrefour is mentioned anywhere on earth, the name instantly conveys a sense of luxurious French retail supermarkets and hypermarkets. The lovely image that Carrefour has promoted throughout the years emphasizes best quality, diversity, open space, good prices, and the pleasure of shopping--a successful combination that can’t be found anywhere else. In 2004, Carrefour began doing business in Saudi Arabia, where it now has 14 stores and five hypermarkets. The company is expected to double these numbers by the end of 2016 through an expansion plan that also includes acquisition of local retailers.

In Saudi Arabia, Carrefour is oriented to customer needs, and stresses performance, leading by example, and responsible behavior. Carrefour believes that Saudi customers appreciate quality, which gives it the flexibility to push customers towards high-end goods rather than playing on low prices. For their Saudi operations, rather than rely on outsiders, Carrefour hired 1000 local employees, who represent 35 percent of its KSA workforce, a number the company plans to increase. That approach is driven by the idea that Carrefour wants store workers to share and understand their customers’ values and preferences.

Carrefour takes food safety as a serious issue, and the company has made it mandatory for all of its outlets to achieve ISO 22000 certification. Their operation focuses on three areas for success: (i) connect with customers; (ii) build superior economies; and (iii) develop sustainable advantages over the competition.

Frederic Levy-Perrault, Carrefour CEO for Saudi Arabia, said in a 2014 talk at the Marketing Club at the College of Business Administration of King Saud University, “You should always be strong to be big in the future and not big to become strong.” This is certainly true for Carrefour’s Saudi operations. While it’s the second largest retailer in the world, Carrefour started very small in Saudi Arabia, and is slowly growing and becoming even stronger.

### **Al Othaim**

Al Othaim is the KSA's leading consumer products provider. The company strives to develop and sustain relationships with consumers and have expanded their outlets to all regions of Saudi Arabia. Its' operations span four categories: (i) hypermarkets; (ii) supermarkets; (iii) wholesale outlets; (iv) corner stores. The company presently has a total of 109 branches across the Kingdom with seven hypermarkets, 68 supermarkets, 11 wholesale outlets and 23 corner stores. It follows seven principles: clients are the top priority, local traditions, local manpower, professional teams, sustainable partnerships, a focus on quality, and quick response to change. Al Othaim has initiated one of the KSA's most successful promotion programs. Called "Iktisab," the program now has 700,000 high-volume registered customers.

### **Jarir**

The best way to describe this retailer is simple: "Jarir not a Bookstore." Today's highly regarded Jarir Bookstore chain developed as a result of the tremendous effort and commitment of the visionary Al-Agil brothers, who started their dream project in 1979 with a small store located on Al Malaz Jarir Street in Riyadh. This single store specialized in supplying office and school supplies to meet customer needs and focused on achieving customer satisfaction. Today, Jarir is recognized as the market leader in office supplies, school supplies, IT products, and books. Jarir Bookstore is well regarded and highly respected in the Kingdom among its customers and within the business community. The company is led by a strong management team that has effective leadership skills, respect for individual initiative, and a commitment to providing their employees with opportunities for personal growth.

In 2003, the company underwent an initial public offering, and a third of its shares currently trade on [Tadawul](#), the Saudi stock exchange. Jarir disclosed a sales increase of 12 percent to 4.6 billion Riyals, as the company grew to have 32 showrooms, with profit increasing by 11 percent to 570 million Riyals in 2013. Sales were driven by the sale of smartphones. The retailer currently expects its sales to increase by 20 percent this year, given steadily rising consumer demand for smartphone products throughout the Middle East.

Jarir, with a market value of 9.6 billion Riyals, plans to expand its operations in Saudi Arabia and across the Persian Gulf. According to Jarir CEO and Chairman Muhammad Al-Agil, the company expects to have 37 stores by the end of this year, and is considering expansion over the border into Egypt, to enter the market there. The company is also planning to hire more Saudi citizens, in line with the Kingdom's efforts to provide more work opportunities for its citizens. Jarir presently has 2600 employees, 35 percent of whom are Saudis, which is significant within the retail industry.

### **Bin Dawood**

In 1984, Bin Dawood opened Saudi Arabia's first supermarket in Shisha, Makkah. The company's stores now cover 80 percent of the western part of the Kingdom of Saudi Arabia, with an annual turnover of 500 million US dollars. The company targets loyal customers who prefer exceptional variety and the choice of high-quality products. Bin Dawood's corporate

culture emphasizes outstanding customer value, service, and quality. It has 18 branches in five major cities. The company's outlets are conveniently located very near the holy mosques in the holy cities of Makkah and Madinah. As discussed earlier, these cities draw large numbers of pilgrims from across the globe throughout the year. Bin Dawood stores offer the latest brands of merchandise through the company's collaboration with a number of renowned international manufacturers and vendors. Since pilgrimage consumers are a major focus of their business, Bin Dawood employs a multi-ethnic workforce.

Bin Dawood Group strives to deliver high value to all its business partners. It also has stores in other cities with different names. Danube, with nine stores and an annual turnover of 400 million US dollars, operates in Jeddah and Riyadh. SAFA, a housewares wholesaler carries European brands. Jumairha is a travel ware wholesaler.

## **CHALLENGES AND STRATEGIES AHEAD**

Saudi Arabia's retailing industry faces a variety of different challenges, all very different from other markets.

### **Cultural Issues and Strategies**

In the Kingdom, where cinema and non-religious music are not culturally acceptable, the retail and lifestyle leisure industries differ from their counterparts elsewhere in the world. Malls have a family-only policy during most of the week, which means young single male customers cannot access these facilities easily. Restrictions that prevent women from driving limit their reach and access to shopping. Rules barring female shoppers from using the changing rooms in malls further restrict their clothing purchases.

The government is encouraging the construction of new developments that offer a diverse environment, which provide the opportunity to live, walk, shop, play and work, all within the vicinity of one another. Each of these new developments includes a mix of hotels, apartments, pedestrian areas, museums, libraries and retail areas, with mono-rail systems for customers. These developments also reflect an innovative, culturally appropriate entertainment concept customized for Saudi Arabia, so they will include secure new entertainment options for children and the entire family, as well as for women or single men. By integrating other community amenities, such as health centers, libraries, leisure facilities, language schools, and civic and religious meeting places within or near the retail centers, these developments are envisioned as stress-free, one-stop destinations.

### **Geographical Issues and Strategies**

Saudi Arabia has extreme heat conditions, with dry weather and high temperatures during the day, and low temperatures at night. The desert climate affects most of the country, with [precipitation](#) levels too low to sustain any vegetation at all, or at most, a very scanty scrub. The infrastructure in cities and malls needs to accommodate extreme summer heat and provide maximum entertainment to make up for the lack of outdoor leisure possibilities.



### **Millennial Generation / Generation Y Issues and Strategies**

The largest demographic group in the Kingdom now is the millennial generation or Generation Y, which is characterized more by a mind-set than any specific behaviour. This demographic group has very specific needs, as it includes young people who are educated, economically independent, open minded, adventurous, and inclined to adopt modernity. Retailers hoping to recruit these consumers before they get enticed by the competition will have to re-think their plans in order to respond to Generation Y's attitudes and preferences.

Mall owners should concentrate on developing modern shopping malls anchored by state-of-the-art hypermarkets, and one approach may be the remodelling of older shopping centers in line with architectural and environmental approaches that can create a sense of belonging and gathering. This could also apply to various shopping festivals and public events to provide further growth impetus to the retailing sector.

Smaller malls developed to enhance niche characteristics may appeal to shoppers who like something trendy. Such smaller shopping centers typically encompass approximately 10,000 square meters of leasable retail space and they showcase quirky, new and up-coming fashion brands, gourmet grocery products, spa services for cars, and specialty home furnishing shops flanked by small, elegant restaurants and cafes, fashionable hair salons, and inviting bookshops.

Differentiation that is based on solid market analysis to identify gaps and opportunities is a must strategy for retailers seeking to capture the young Saudi retail market. A new venture should focus on developing a business model that innovates and departs from that of the major groups operating in the region. This will also help to address market saturation and will lead to sustainable growth.

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