



Saudi Arabia: Franchising Market Update

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Summary

Saudi Arabia is the largest market in the Middle East with the fastest growing economy in the region. The oil sector remains the core of economic activity in Saudi Arabia, providing the financial backup for government expenditure plans and broader economic confidence.

Due to sustained high oil prices over the last few years, the Saudi budget and current account surpluses are at record levels. With growing liquidity available, the non-oil economy continues to thrive and has been the main engine of economic growth. The Saudi government has placed a large emphasis on economic diversification and has increased private sector participation. A published economic study by a local bank stated that there would be substantial growth in the non-oil sector despite the slump in oil revenues. Hundreds of billions of US dollars will be spent in the next 10 years on these highly ambitious and diversified projects taken up by the Kingdom of Saudi Arabia. With relatively low inflation rates, low taxes and ample capital availability, Saudi Arabia remains an attractive destination for foreign investments.

Franchising has witnessed remarkable growth in the Middle East region over the last few years with an increasing number of international companies seeking to establish a presence in the region. According to a business journal, franchising projects represent 50 percent of retail business models worldwide with a total value of \$9 billion, out of which 5 percent is represented by the Middle East. The past five years have witnessed a tremendous growth in the Franchise market in Saudi Arabia with many successful American, European and local franchise concepts taking shape. Many of the brand names are already well entrenched in the market. It is estimated that Saudi Arabia represents a multi-billion dollar market for franchising with an estimated value of \$1.3 billion in annual fees and royalties, and expected to grow an average of 12-15 percent per year. Most of the franchise concepts are focused in the restaurant, food & beverage and retail fields. Catching on the trend, many local Saudi franchise developers have managed to promote more than 30 Saudi concepts using franchising within the Kingdom, with some of them having gone international. Franchising is perceived to be an ideal business model for small to medium enterprises (SME's) in Saudi Arabia.

Despite the global economic crisis, the Saudi economy remains resilient due to stricter fiscal policies and regulations. U.S. companies should realize, however, that there still are no specific laws and regulations applicable to the franchise industry in the Kingdom. Franchise agreements usually duplicate the existing agency/distributorship agreement set forth by the Ministry of Commerce and Industry.

Market Data & Trends

Saudi Arabia is the largest market in the Arabian Gulf and the Franchising approach continues to expand in several business sectors. A thriving economy coupled with a growing and young population makes Saudi Arabia an inviting market for the franchising industry. With a per capita reaching its highest level ever at \$18,531 and a young population, 57 percent are under the age of 25, both combine to provide an important base for the franchising sector. Saudi youths usually opt for managing and operating their own businesses, which in turn opens up opportunities for growth along various franchising sectors. Moreover, there is an overwhelming number of Saudis who have studied and traveled abroad extensively, and who have acquired a taste for Western trends and culture.

As such, these entrepreneurs elect to acquire and work with a recognized and renowned brand, which facilitates and streamlines their business undertaking. The latest figures revealed that there are close to 500 international franchise concepts prevalent in the market encompassing areas such as food & beverages, retail, automotive services, healthcare, education, furniture, hotels, cosmetics, laundry services, apparel, patisseries, juice centers, corn shops, etc. It is also estimated that 20-30 franchise brands were locally conceived, especially in the food and beverage sector, including Herfy, Al-Tazaj, Steak House, Hungry Bunny, Dajen, Dr. Café, Kudu, among others.

The Saudi government encourages and supports private sector contribution and growth in line with its strategy to diversify the economy and lessen dependence on oil resources. The government provides soft and subsidized financing to assist Saudi entrepreneurs and youths with startup projects. The Centennial Fund is one such organization that provides financing and mentoring to young Saudi entrepreneurs. The Saudi Chambers of Commerce & Industry also have been instrumental in promoting new business concepts through their members and committees.

Though actual figures on this lucrative market are not available, industry sources indicate that fast food franchises account for more than 60 percent of the total franchise market, with American concepts representing 70 percent of all the franchised operations in Saudi Arabia. Introduction of various new fast food and restaurant concepts has notably increased in recent years, especially for take-away food and beverage joints located in shopping malls where Saudis usually spend most of their leisure time. Some of the franchises currently present in Saudi Arabia include McDonalds, Burger King, Pizza Hut, KFC, Chilies, TGIF, Hardee's, Ruby Tuesday, Fuddruckers, Quiznos Sub, Dominos, Subway, Starbucks, Mochachino, Seattle's Best, Cinnabon, XOXO, Debbenhams, Saks Fifth Avenue, Sheraton, Hilton, Four Seasons, Floresheim, Martinizing, Avis, Hertz, Budget, Limited Too, Mail Boxes, Alphagraphics, Kwik Kopy, DHL, Ann Kleine, Guess among many others. Lately, reputed names like Krispy Kreme, Gap, Le Notre, and Outback have forayed into this blooming industry in Saudi Arabia.

Opportunities exist in fast-food, laundry and dry cleaning services, office temporary services, automotive parts servicing, mail and package service, printing and convenience stores to name a few. Newer franchising concepts like spas, health clubs, wellness & slimming clinics and trendy fashion labels have caught the attention of the younger population. According to a private research report, and in contrast to the overall conservative nature of the Kingdom, the Saudi market is the largest in terms of per capita spending on cosmetics and fragrances.

Additionally, and due to the lack of leisurely activities, Saudi women spend most of their leisure time at shopping malls browsing for trendy apparel and cosmetics.

Sources reveal that despite the high number of international franchise concepts already present in the Kingdom, there is still potential for new concepts, given the fact that there are numerous real estate projects, especially shopping malls, that are underway or being planned. The most crucial aspect for an international franchise owner is choosing the right Saudi partner who has the resources - financial, manpower and the expertise to manage the business. Often times this will determine the extent to which this business model is successful. It is worthy to note that due to the latest world economic downturn, the real estate market in the Kingdom has seen some fluctuations. For instance, a year ago, many real estate developers and brokers were leasing out spaces at exorbitant prices. Currently, this trend has taken a different turn altogether with more room for bargaining and negotiations. With the right market entry strategy and keeping in mind religious and cultural considerations, U.S. franchises have substantial potential in the Saudi market.

Market Entry

There are no guidelines for franchising in Saudi Arabia. The Saudi government uses commercial company law as a baseline for franchising. Recently, the Saudi government permitted foreign companies to engage in wholesale and retail trade where many franchise companies are categorized, thus allowing foreign partners to own as much as 75 percent of the Joint Venture. U.S. companies wishing to do business in Saudi Arabia must have a joint venture with a Saudi partner. The partnership would allow for up to 75 percent equity partnership for the foreign (i.e. U.S.) partner. In the beginning, the percentage would likely be closer to 50-50. After perhaps three years, the foreign partner is allowed to own equity up to 75 percent in the Joint Venture. The U.S. franchiser must have title to the brand or concept and registering the franchising concept with the appropriate government entities entail that the franchiser must be the original franchiser and may not be a third-country sub franchise, except for sub-franchises from countries of the Gulf Cooperation Council, GCC. The registration process may take four to six months. Notwithstanding, Saudi Arabia still does not have a franchise law or regulations and all of the franchise agreements are drafted based on the existing agency/distributorship regulations. Many U.S. companies, however, prefer to use their company's international contracts but do incorporate clauses specific to Saudi Arabia. U.S. franchises must have in-country legal representation to review any agreements and forms of incorporation. Additionally, it is not uncommon for foreign companies to include a third-country, such as the United Kingdom, for resolving disputes.

The majority of the franchises operating in Saudi Arabia are owned and managed by a select group of merchant families who possess the structure and the resources to handle these franchises, without having to sub-franchise to other parties or business entities.

The Ministry of Commerce and Industry (MOCI) currently oversees administrative tribunals related to commercial disputes. It is estimated that approximately 80 percent of commercial disputes are resolved at the MOCI tribunal level with the remainder moving to the Board of Grievances for appeal, a positive development for American and foreign businesses. On December 11, 2005, the Kingdom of Saudi Arabia became the 149th member of the World Trade Organization (WTO). As such, The Saudi Government agreed to undertake a series of important commitments to further liberalize its trade regime and accelerate its integration into

the world economy, while offering a transparent and predictable environment for trade and foreign investment in accordance with WTO rules. In October 2007, King Abdullah bin Abdulaziz issued a decree to overhaul the Kingdom's judicial system, calling for specialized criminal, commercial and labor courts, which are to be staffed by judges trained in these respective fields. Implementation of the decree continues to progress slowly and the Ministry of Justice is working on setting up commercial courts and training commercial judges.

Cultural Considerations

Operators of food service outlets should be mindful of the culture and religious sentiments in this conservative society and should tailor their concepts, food, and presentation accordingly. Saudi Arabia is a strict Islamic society where Muslims are required to observe prayer five times a day and businesses are required to close down during these times. Restaurants and food service outlets are required to have two entrances with two segregated seating areas, one for males and the other for families and females. Public facilities in many areas remain segregated by gender while the overall process of women entering the workforce has proceeded much more slowly than in other neighboring states. The Saudi workweek is Saturday through Wednesday. Most private sector firms do not open on Thursday afternoon and on Friday. Arabic is the official language, while English is the "business language". During the Islamic fasting month of Ramadan, work hours are reduced from eight to six hours and food outlets and restaurants are closed during the day and only are open for business after sunset, except for hotels.

Resources & Contacts

Participation at trade shows is a highly effective tool in making the right business contacts to learn about opportunities in this region. On the U.S. side, the U.S. Commercial Service in Saudi Arabia actively organizes Saudi business delegations to trade shows in the U.S. One such show is:

International Franchise Expo 2010

April 9 – 11, 2010,
Walter E. Washington Convention Center
Washington, DC
www.ifeinfo.com

The International Franchise Expo is the largest and most important annual trade show in the world for the franchising industry, featuring more than 300 franchise exhibitors, with investments ranging from US \$5,000 to US \$1 million.

For U.S. companies seeking a Saudi partner, the U.S. Department of Commerce Export Assistance Centers can also be of assistance where various programs & services are offered to assist U.S. companies export and locate reliable foreign partners. U.S. companies may also participate in Trade Missions organized by the U.S. Department of Commerce, local state authorities, chambers of commerce or city export councils.

[Ministry of Commerce and Industry \(MOCI\)](#)
[Franchise Development Services Middle East](#)
[Saudi Franchise Directory](#)

[Franchise Services Company](#)

[Saudi Arabian General Investment Authority \(SAGIA\)](#)
[Eastern Chamber of Commerce and Industry \(Asharqia Chamber\)](#)
[Riyadh Chamber of Commerce and Industry](#)
[Jeddah Chamber of Commerce and Industry](#)
[FranchiSeek Saudi Arabia](#)
[International Conference and Expo for Franchise 2009](#)

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