Saudi grocery market set for growth

The Saudi retail grocery market, which was worth around $22.3 billion in 2011, is expected to grow at a CAGR of about 4% to reach $28.2 billion by 2017, according to *Glasgow Consulting Group*

Dmitriy Shironosov / Shutterstock.com

The grocery market in the Kingdom is driven mainly by a rising population, improving education and changing shopping habits, but it continues to be fragmented with small stores still accounting for majority of grocery sales. GCG expects big retailers to corner increased market share by opening new stores at the expense of smaller ones as the changing lifestyle of the Saudi population is favouring large format grocery retailers. The report also notes that shopping habits in the Kingdom are changing and moving closer to a western lifestyle. This change is driven by a young population, which increasingly shops at supermarkets and hypermarkets rather than traditional stores. Even the older generation's preference for the convenience offered by supermarkets and hypermarkets is pronounced. Given the limited options for entertainment, Saudi families tend to visit large format stores for entertainment.

Retail market size

Table 1 shows how the retail grocery market has developed and is expected to develop.

Table 2 presents GCG' estimates of breakdown of total retail spend by product type. For the sake of simplicity, sales direct from wholesalers to consumers, which is significant for some products, has been ignored in this analysis and accorded the same breakdown by outlet type as other products.

Food is clearly the most important category, accounting for about 76% of retail sales. This is followed by non-food with 18% and the remaining 6% being non-grocery. The importance of different product categories varies widely by retailer type as discussed below.

Despite significant consolidation over the past five years the distribution network for grocery items (including food) in Saudi Arabia is still relatively fragmented as can be seen from Table 3.

In the Saudi context, the current grocery and non-grocery retailing sectors (including clothing, consumer durables etc) make up 35% and 65%, respectively, of the total retailing market size. The non-grocery sector grew by 47.5% from 2005 to 2010 (implying a CAGR of 8.1%), outperforming grocery sector growth of 44.2% (with a CAGR of 7.6% over the period). GCG expects the grocery sector to grow at a slightly lower CAGR of 4% to reach $26.6 billion by 2015.

Recording a steady growth, hypermarkets and supermarkets now account for about 44% of grocery sales but notably the smaller stores still retain the balance 56% of the market. The 'bakalas', which offer a very limited product range but are widespread and provide convenient locations, continue to account for one in every six riyals spent on grocery items.

Competitiveness

Table 4 below lists the leading retail chains in Saudi Arabia together with the number of stores they have and estimated market share.

Savola Group's Azizia Panda is the leading retail chain and has been leading in consolidation through new store development and acquisition. In February 2008, it acquired all 20 Giant Stores from Al Muhaidib Group. This was followed in July 2009 with the acquisition of all 11 Géant stores in Saudi Arabia from Fawaz Alhokair Group. Azizia Panda is currently the market leader with 134 stores and some 10% of the Saudi grocery market.

Following closely is Al Othaim Group, which has a clear strategy of opening supermarket and hypermarket outlets. Al Othaim has set a target to open 10 stores per year, although this figure is a little optimistic considering the scarcity in locations, fierce competition and upfront investments required. Al Othaim may succeed in opening 7-9 outlets per year to reach 132 stores by 2014, with a retail space of close to 3.1 million sqft. This will increase Al Othaim's market share of grocery market by 1.4% to reach around 6.4%. While the number of stores owned by Al Othaim and Panda is similar, their market share seems to be slightly less. This can be attributed to the fact that both Al Othaim and Panda continue to operate some smaller size stores, which may not qualify as supermarkets under formal definitions.

Another prominent locally grown brand is Bin Dawood that currently controls about 4% of the countrywide market share. Bin Dawood's strategy is price based, ie, offer best value to its customers and be a family retailer.

The entrance of international retailers such as Géant and Carrefour has spurred local retailers such as Panda and Al Othaim. Operators like Carrefour have brought in fancier stores and aggressive retailing trends. Local retailers have become more active in expanding their operations by opening new stores and acquiring smaller retailers, and the trend is expect to continue.

Despite the very significant expansion by leading retailers the top four retailers combined account for just 23% of the retail market. In comparison four UK retailers – Tesco, Sainsbury, Asda (Walmart) and Morrisons – account for some 75% of the entire UK grocery market. However, further consolidation in the Kingdom is inevitable.

Retailing trends

Grocery retailing in Saudi Arabia is experiencing exceptional transformation. On the one hand, customer expectations are changing and growing, while on the other hand the steady emergence of large and well-managed chains, either of local or international origin, is redefining the retail landscape. In order to remain competitive,

Table 2

Saudi Arabia: Grocery Retail Breakdown by Category

Category	Share (%)
Grocery food	**76%**
of which:	
Beverages (hot and cold)	16%
All dairy (long-life/short-life)	15%
Meat, poultry, fish	15%
Confectionery, snacks, biscuits	6%
Sauces, spreads, condiments	2%
Bakery products	2%
Other foods	20%
Grocery non-food	**18%**
of which:	
Household products	4%
Personal care	4%
Others (tobacco, paper products etc)	11%
Non-grocery	**6%**
Total	**100%**

Note: Minor inconsistencies in the above table due to rounding

Table 3

Grocery Retail Universe by Outlet Type, 2011

Category	Number of Outlets	Share of Sales
Supermarkets /Hypermarkets	500	44%
Other Self-service /Mini Markets	3,670	20%
Large Grocery	11,130	20%
Small Grocery	18,800	1%
Total	**34,100**	**100%**

Table 4

Saudi Arabia: Market Share and Store Numbers of Leading Retailers, 2011

Retailer	Number of Stores	Market Share
Azizia Panda	134	10%
Al Othaim	103	5%
Carrefour	15	4%
Bin Dawood	29	4%
Other	33,819	77%
Total	**34,100**	**100%**

Table 1

Saudi Arabia: Grocery Retail Market Size (SR billions)

	2010	2011	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E
Grocery Retail	81.3	83.7	87.0	90.4	94.0	97.7	101.6	105.6
CAGR	3%		4%					

Source: GCG research and estimates

Al Othaim supermarkets

all grocery retailers will have to constantly innovate and offer a superior retail product and experience. Some recent and upcoming trends and challenges include:

The Saudi retail sector remains attractive; this is evident from the country's "attractiveness" in AT Kearney's 2011 Global Retail Development Index (GRDI). The Kingdom is placed seventh in 2011 GRDI global rankings:

- Represents high market attractiveness and low country risk
- Second best among MENA countries after Kuwait (rank 5)
- The UAE is placed 9th in the ranking

People enjoy the experience of shopping in supermarkets and hypermarkets as a form of entertainment. Whereas the present supermarkets and hypermarkets account for only 44% of aggregate grocery sales but a shift to larger retail formats is an almost inevitable long-term trend. This trend is further supported by the 'mall' culture as hypermarkets/supermarkets move into these malls as 'key' anchors and offer a complete one-stop-solution and a diverse shopping experience to a retail customer. This is an emerging trend not only in Saudi Arabia but also regionally across the Middle East.

Grocery retail markets in big cities are already well penetrated by the main chains, but there remain significant growth opportunities both through the massive expansion of these cities (eg, Riyadh is extending so rapidly that small cities that used to be outside Riyadh have started to fall within the Riyadh city boundaries) and in smaller cities (such as Tabuk) and more rural areas. Currently, many of these are still served by small local groceries and convenience stores. There can be little doubt that leading retailers such as Azizia Panda and Al Othaim are examining this potential.

Al Othaim vs. International Retailers, 2010

Company	SSS	Gross Margin	EBITDA Margin	ROA	ROE
Sainbury	2.2%	5.4%	5.9%	5.6%	12.5%
RESCO	4.0%	8.1%	8.5%	5.1%	16.9%
Kroger	5.0%	23.1%	8.5%	0.3%	1.4%
Al Othaim	5.5%	7.6%	5.2%	10.0%	33.4%

Source: Bloomberg, GCG research

Large retailers normally enjoy bargaining power over suppliers. In the Saudi retail market, large grocery retailers have yet to fully exploit this power because the market is still relatively fragmented; even the largest retailers still do not have a large enough market share to dictate to major suppliers. Nevertheless, the aggressive expansion that grocery retailers are undergoing is increasing their bargaining power gradually. Al Othaim, for example, was able to improve its gross margins during the last two years from 6.7% in 2009 to 7.9% in 2011. The company explicitly stated that this increase was mainly due to better contracts with suppliers. The largest retailers will improve their margins as a result of expansion in a way that smaller retailers cannot.

The larger format grocery retail sector requires good locations with high population density to do well. Although the standard size differs for the type of store and even from one retailer to another, an average land area of 43,000 sqft is required (either buying or leasing) to open a decent size hypermarket format store. As a result, it is quite difficult to find available land at reasonable prices considering that real estate markets are booming. In order to open a store, a retailing company can either buy or rent the land. Buying land can be very expensive and it is often not feasible. Renting land is usually much better; however, not many landowners are tempted to enter into long-run rental contracts when they may get much better sale opportunities. Similarly, renting stores within buildings is getting more expensive as a result of increasing demand for spaces within cities. As mentioned, rural areas where real estate is reasonably priced offer new opportunities for retailers to expand. As a result, some retailers have invested in real estate to complement their retailing operations. Although this doesn't solve the fundamental problem of the booming real estate market, it does help them to find lands at reasonable prices. For example, Savola owns some real estate investments to support its retailing business (Panda). Similarly Al Othaim owns a 13% stake in a sister real estate company to complement its core business. It also plans to increase its stake to 100% to attain full control, which should help the company more in its core business. Again, the largest retailers with the strongest financial backing will obtain advantages unavailable to smaller rivals.

Increased customers options when it comes to grocery shopping, mean that most retailers have resorted to promotions and discounts to attract customers and hence gain market share. This has put pressure on margins and hindered their profitability.

Al Othaim Stores Overview, 2010

	Number of Stores	Total Sales Area(Sqm)	Average Sales Area (Sqm)	Grocery Retail Banner Sales (SR)	Grocery Spending Market Share (KSA)
Al Othaim	103	151,400	1,577	Approx 4 Bn	5%

Note: Al Othaim had not yet released 2011 results in early February 2012

Again, the largest retailers are better able to bear this cost. According to GCG research, Al Othaim is one of the competitive retailers, offering low-priced items. Furthermore, it is actually perceived by customers as the best retailer in terms of prices, even though this is not always true.

While international (eg US, UK) and even regional retailers like Carrefour in the UAE have successfully implemented online shopping, its introduction in the Kingdom has been hampered by the lack of clear street addresses (although of course many 'bakalas' have made home deliveries based on telephoned orders for years). Several major retailers are bound to adopt online shopping services as soon as the address problem is solved.

Azizia Panda

"Saudisation" is imposing pressure: According to industry sources, the "Saudisation" policy is currently one of the major challenges to Saudi retailing. The Kingdom's current school leavers and graduates often lack both the skills and motivation needed for satisfactory employment in the private sector. This is imposing financial and operational pressure on the industry. Financially, Saudis are more expensive than many foreign workers, such as Filipinos. However, the financial pressure has been relieved by the Human Resource Development Fund. This fund supports the state policy of "Saudisation" by paying 50% of Saudi worker's salary. Of course the fund imposes tough conditions, but many companies have agreements with the fund that help them to hire more Saudis.

Operationally, the problem seems to be more difficult; for example, many of the Saudis who work as cashiers, generally inside retail stores, are teenagers and youth who are often uncommitted to work. Also, their productivity is low compared to that of foreigners. This issue is somewhat pressurising retailers and impeding their expansion. To solve this problem, many leading retailers including Savola Group, Al Othaim Group etc have developed their own training centres aimed at upgrading the sales skills of new Saudi employees.

Closure of outlets for Salah (prayer time): All retail outlets loose up to four hours per day due to the closure for 30-45 minutes for prayer, five times a day. Most chains allow shoppers already inside the store to remain inside. The exact prayer timings vary from day-to-day and from city-to-city. While this has a disruptive influence on the continuity of shopping, retailers often welcome the breaks as an opportunity to restock shelves with their often largely non-Muslim workforce. The impact is also lessened by the fact that stores are open for longer hours. Many in the trade believe that this compulsory closure may in time become optional and at each store's discretion.

Mix of cultures: A diverse population mix in the country comprises Saudis and non-nationals, mainly Asians (eg Indians, Pakistanis, Bangladeshis and Filipinos), other Arabs (eg Egyptian, Lebanese, Jordanians) and Western expatriates mainly living in compounds (Americans, Europeans etc). There are, therefore, a multitude of tastes to be catered for which, according to some in the trade, contributes in part to the very large number of SKUs stocked by most supermarkets. It is likely that in the long-term this diversity will decline, but that impact is probably some years away.

Seasonality: Retail sales in the country can fluctuate significantly from month to month depending on the season and the product. For example, consumption of certain products such as jelly and crème caramel has a strong seasonal peak at Ramadan, with some suppliers estimating that more than 90% of sales (ie, supplier sales) take place in the 2-3 month Ramadan selling-in season. While retailers/wholesalers sell-on most of what they buy-in at this time, some products must also be held back to avoid stock-outs later in the year. Depending on the retailer, the winter holidays can be even busier than Ramadan, with other peaks in September (back to school) and in late spring (the traditional sales period). With the Hijra calendar based on the cycles of the moon, the timing of these seasonal sales does move slightly every year. ■

Panda Stores Overview, 2010

	Number of Stores	Total Sales Area(Sqm)	Average Sales Area (Sqm)	Grocery Retail Banner Sales (SR)	Grocery Spending Market Share (KSA)
Panda	134	577,000	5,151	Approx 8 + Bn	10

Note: Panda had not yet released 2011 results in early February 2012

Fedor Selivanov / Shutterstock.com

Philip Lange / Shutterstock.com

View of Doha downtown skyline, Qatar

Kingdom tower in Riyadh, Saudi Arabia

Saudi Arabia first pick of global retailers for regional expansion

Global retailers looking to make early international moves, particularly at the luxury end, found Saudi Arabia, Qatar and the UAE offering greater opportunities, according to the RIPE Index

In the first annual Retail International Programme Expansion (RIPE) Index, published recently by global built asset consultancy EC Harris, Saudi Arabia, Qatar and the UAE, which were ranked 8th, 11th and 15th, respectively, scored well for the quality of their transport infrastructure, capability of their construction supply chain and their supporting legal framework.

Luxury brands such as Bloomingdales are succeeding in the Middle East with high quality retail space on offer and an overall willingness to do business in the region.

Saudi Arabia topped the list for MENA region.

Qatar took the second position in the region.

The overall ratings for all the MENA countries were 'high' but the only watch-out being project delivery issues.

"What we find is that even the most opaque local bureaucracy can be overcome if the investment into the relationship is made by native speakers with the patience to understand the people, the culture and the procedures," EC Harris says.

The presence of 'strong' trading partners and franchise operators such as Majid Al Futtaim, Al Tayer, Landmark Group, Alshaya and the Chaloub Group, meant that market-testing moves can be made with relatively low resource and capital requirements.

Luxury retailers are profiting from the ease of being able to deliver in this market, EC Harris says.

It cited Bloomingdales, as an early mover, whose first store outside of the US opened two years ago, anchoring the Dubai Mall.

The 161,000 sqft, three-level development was undertaken in partnership with Al Tayer and is trading well.

Qatar's World Cup success presents interesting brand showcasing opportunities, the report said, adding it was anticipated that several major malls will come to market in the lead up to 2022.

"International expansion presents great opportunities for retailers experiencing low growth in their domestic markets," says John Williams, regional leader, Middle East at EC Harris.

"Consumer appetite for luxury international brands is strong across the Middle East, and our report suggests that retailers are able to set up much more easily here than in markets such as China or India," he adds.

"Successful international expansion is about balancing the desirable with the feasible. Success is down to making a careful and committed choice, maintaining realistic expectations and making plenty of adaptations along the way," he says.

The RIPE index ranks 40 important consumer markets based on five success factors for large-scale rollouts, drawing out the nuances property leaders should consider as their own organisation's expansion plans evolve.

"International expansion is the new battleground for retailers experiencing low growth in their domestic markets. Consumer appetite for Western brands in Asia makes these markets attractive, but not always easy to enter. Successful international expansion is about balancing the desirable with the doable. Much like a marriage, success is down to making a careful and committed choice, maintaining realistic expectations and making plenty of adaptations along the way," says Colin Turner, head of retail at EC Harris.

In August, Jones Lang LaSalle's third quarter global market perspective, said the slowing global economic environment had resulted in European retailers seeking to increase their presence in the Dubai market in recent months, which was fuelling rental growth in popular centres. ■