

MARKET ANALYSIS FOR ESTABLISHING A FACTORY IN SAUDI ARABIA - A CASE STUDY

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ABSTRACT. With the discovery of oil, the Kingdom of Saudi Arabia launched a development program which is perhaps unparalleled in history. Starting from a totally import based society, the Kingdom's planners envisaged developing their own technical base by establishing a variety of industries. This required development of feasibility studies incorporating market, technical, and financial analysis. This paper reports the first part of such a study undertaken locally. It pertains to the market analysis for establishing a snack foods factory in the Kingdom. The paper discusses factors such as size, segments, growth, competition, etc. It also presents results of a market survey which is the basis for marketing strategies regarding products, pricing, advertising and promotion, distribution network, etc. Finally the study confirms that the project is feasible in this respect.

1. INTRODUCTION

Over the last quarter of the century the Kingdom of Saudi Arabia has undergone a phenomenal development program. In the industrial sector, the Kingdom has now developed a sound base. To name a few, there are now established industries in the area of petrochemicals, steel, food products, household items, etc. In a number of these industries the Kingdom has not only achieved self sufficiency but also has developed the export potential. This obviously demands conducting suitable feasibility studies including the major aspects of market, technical and financial analysis [1]. This paper reports the market analysis carried out for a snack foods factory to be established in the Kingdom.

Snack food is basically a light food that is eaten between or after meals. It is a crisp and chip type product made of base materials such as potato, corn, wheat, rice, etc. It is light in weight and is generally flavored. It is made either by extrusion (wet method) or by frying (dry method) [2].

Proper market analysis is the sine qua non for the establishment of a sound and profitable venture [3]. Depending on how thoroughly the market research is carried out can make or break an enterprise.[4,5]. It is in keeping with the importance of market analysis that this paper presents a case study of this aspect for a snack foods factory.

After giving a brief background of the historical development of snack foods market in the Kingdom, the paper discusses aspects such as market size, market segments, market growth and market competition. It then presents results of a market survey regarding the availability, popularity and pricing of different brand products. Based on this analysis, a marketing strategy is developed about such factors as product type, promotion, staffing, and pricing,

etc. The other aspects of the case study (technical and financial analysis) are not being reported here and will be published later [6]. It is hoped that this will then become an illustrative example for this kind of work.

2. EXISTING MARKET

2.1 Historical Background

Snack foods starting selling in considerable quantities in the Kingdom about twenty years ago. The first major factory was set up in 1980, then two more in 1981 followed by others subsequently. During the years 1988 - 1991 the consumption increased by about 73% as shown in Fig. 1.

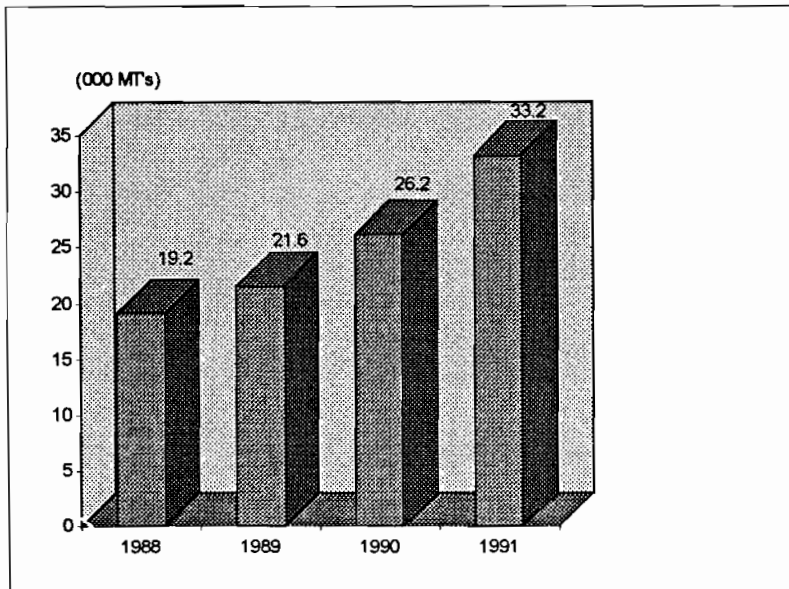


Figure 1: Yearly market consumption of snack food

2.2 Market Size

According to the figures published by the Chamber of Commerce [7], the total market of snack foods in the Kingdom in 1991 is 33300 metric tons (MT) equivalent to 460×10^6 SR. Of this figure, 73% is the local production and 27% is imported. The local production is shared by four major and seven minor companies. The imported products come from fourteen different countries of whom Holland is at the top of the list.

2.3 Market Segments

There are three main products being sold in the market. They are potato-based, corn-based and wheat-based. They share 51%, 35% and 14% of the market respectively which means that the local production of the products is approximately 37%, 26%, 10% respectively. This in turn is mostly shared by two companies as shown below.

Table 1: Percentage share of Different Companies

S.No.	Product Base	Company Name	%age Share
1.	Potato	Tasali	24.0
		ITTI	10.4
2.	Corn	Tasali	9.0
		Fesh Fash	8.8
3.	Wheat	Tasali	7.7
		Koren	1.1

2.4 Market Growth

The four-years market consumption of snack foods is as shown below.

Table 2: Four-Years Consumption of Snack Food

Year	1988	1989	1990	1991
Consumption in MT	19.2	21.6	26.2	33.3

Using these figures as historical data, the following simple linear regression model is fitted.

$$X(t) = 18.04 + 4.69 t \quad (1)$$

where $X(t)$ is the annual consumption and t is the time in years. This indicates an annual growth rate of 4.7 MT. This is further supported by the fact that the per capita consumption in the Kingdom is only 2.2 Kg compared to, say, 7.5 Kg in the U.S.A. and 4.2 Kg in the U.K. which indicates the growth potential [8].

2.5 Market Competition

There are five major competitors in the market, four for local products and one for imported. They are Tasali, Fesh Fash, Fer Fesh, Nasma, and ITTI. The yearly licensed capacities of the first four are 15.5, 3.8, 1.3, 1.6 MT respectively. Amongst themselves they account for about 90% of the local production. Tasali is by far the leader of the group and has a major share of both the potato-based and corn-based products. It has a variety of flavors and maintains a good quality. It has a good distribution system and generally sells in the SR. 0.5-1.5 price range. Its weaknesses are in the quality of packaging, low key promotional activity, lack of competition in more than SR. 2 range, and poor showing in supermarkets. The other competitors are of relatively small size.

3. MARKET SURVEY

A survey questionnaire is a very effective instrument for eliciting the market situation (9). It helps in focusing on the specific problems as well as provides guidelines as to how to resolve these problems.

A questionnaire was developed and distributed to 100 different outlets - 10 wholesalers, 15 super markets, 15 mini markets, and 60 grocery stores of Jeddah. Table 3 shows some results of this survey.

Table 3: Some Results From the Survey

S.No.	Type of Store	Percentage Sale			Average Monthly Sale S.R.
		Potato Chips	Corn Curls	Wheat Curls	
1.	Super market	53	40	7	3200
2.	Mini Market	44	36	20	1350
3.	Grocery Store	68	26	6	850

Some other findings of the survey were as follows:

- a) In 33% of retail outlets the supply does not meet the demand.
- b) In grocery stores the maximum demand is in less than S.R. 1 range. In mini and supermarkets it is in more than S.R. 1.5 range.
- c) A majority of the stores have yearly increase in sales from 10-20%.
- d) Most of the supplies are made through van salesman.
- e) Most of the local products are in the less than S.R. 1.5 range and the imported products are in the more than S.R. 1.5 range.
- f) The profit margins are in the range of 5-15% for wholesalers and 10-35% for retailers.

4. MARKETING STRATEGY

Based on the above discussion of the existing market and the results of the survey, the following marketing strategy was developed.

4.1 Products

The proposed factory will mainly produce potato chips and corn curls in sizes ranging from 16-200 gram packs and in all kinds of flavors e.g. ketchup, barbecue, hot chilli, cheese, salt and vinegar, chicken, etc. The objective will be to produce quality products with a market share in the beginning to be 5%, gradually rising to 20% in 7 years.

4.2 Pricing

The following is the proposed pricing structure.

Table 4: Proposed Pricing Structure

S.No.	Product	Weight gm	Competitor's Price SR.	Proposed Price SR.
1.	Potato Chips	20	7.6	7.0
		100	5.0	4.0
		55	3.0	2.5
		25	1.5	1.0
2.	Corn Curls	45	1.5	1.0
		16	.5	.5

The above prices, while highly competitive, will still afford a reasonable profit margin of 10-15% for whole sellers and 20-25% for retailers.

4.3 Advertising and Promotion

It is proposed to carry out a concerted and consumer-focused campaign of advertising and promotion. Advertising will be carried out on a continuous basis through TV, newspapers, bill boards, posters, etc. Promotion will mainly comprise of a widespread sampling operation undertaken at markets, schools, mosques, fun parks, etc. This two-pronged attack is expected to provide a clear edge over the competitors.

4.4 Distribution Network

It is envisaged that there will be three warehouses, one at Riyadh for Central, Northern and Eastern region, one at Jeddah for Western region, and one at Khamis Mushayt for Southern region. Further supply to wholesalers, supermarkets, mini markets, and grocery stores will be carried out through vans with different frequencies to suit the requirements of each type of customers.

4.5 Staffing

A staff of 5 and 48 persons is visualized each for Marketing and Sales department for the first year. Their breakdown is given below.

a) Marketing

Market Manager -1; Product Managers -2; Secretary-1; Typist Clerk-1.

b) Sales

National Manager-1; Region Managers-3; Area Managers-4; Salesmen-23; Sales Clerks-3; Warehouse Supervisors-3; Store keepers-3; Drivers-3; Secretary/ Typists-5.

There will be gradual increase in sales staff over a period of 4-5 years.

4.6 Miscellaneous

It is proposed to provide the following two kinds of credits to the customers.

- a) A credit for 30 days to be provided to whole sellers and selective retailers.
- b) Temporary credit of upto a maximum of S.R. 10,000 for 15 days to be provided at the discretion of salesmen.

Furthermore, the sales staff will be given a 2.5% commission on the gross sales.

5. CONCLUSION

This paper has presented a case study of a market analysis for establishment of a factory in the Kingdom of Saudi Arabia. The factory is for snack foods. It first describes the existing market giving a historical background, assessing the market size, describing the market segments, estimating the market growth, and analyzing the market competition. It then presents results of a market survey carried out for 100 different outlets. Finally, it presents the marketing strategy incorporating a description of the products, details of pricing, plans for advertising and promotion, outlines of distribution network, size of staff to be employed for sales and marketing, and a few miscellaneous features.

The exercise indicates a high feasibility of the market analysis. It is hoped that this may become an example for such studies in the Kingdom in future.

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