

Analysis of saudi arabia's restaurant industry



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Introduction:

In this paper we will discuss the restaurant Industry in Saudi Arabia which is growing faster than anywhere else in the region; it is growing at a pace that is exceeding its infrastructure with different range of prices and classes, starting from as low as \$1.00 USD and going up to \$75.00 USD if you're into fancy restaurants[1].

The restaurant industry is very diverse and large including: cafes/bars, full-service restaurants, fast food, home delivery and street stalls, all types of restaurants have a wide range of food specialization from ethnic, international, and local.

There are also three main types of investors: independent owners, international franchise, and local restaurant chains.

A restaurant chain is a set of related restaurants, typically with the same name in many different locations either under shared corporate ownership e.g. Al-Baik and Herfy. Typically, the restaurants within a chain are built to a standard format and offer a standard menu.

A franchise is a right granted to an individual or group to market a company's goods or services within a certain territory or location. Some examples of today's popular franchises in Saudi Arabia are McDonald's, Subway, and Domino's Pizza.

In order to analyze the attractiveness of the restaurant Industry in Saudi Arabia we will employ three different analytical tools, Porter five forces, assessment of the macro market environment known as (PESTLE Analysis),

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and SWOT analysis. Based on our analysis we will offer an advice to any new firm considering entering the restaurant industry in Saudi Arabia.

PESTLE Analysis

The effect of the Saudi politics on the restaurant industry

Saudi Arabia is ruled by the family of Al Saud who since the establishment of their kingdom declared that it is ruled by the Islamic law. The Al Saud family also affirmed that they are committed to supporting the economic growth and be part of the developed nations. This goal is very challenging to achieve because fundamentalist Muslims refuse the idea of globalization, this lay a moderate political risk on the regime. On the other hand, this political situation affects the restaurant industry positively because the restaurant industry remains the major uncontested method of entertainment among Saudis. Particularly, by law, all restaurants are required to have single-males section separated from the family section to adhere to the tradition and religious requirements.

Moreover, The Kingdom of Saudi Arabia is perceived as the leader of the Muslim world, because it is the home town of Makah; which Muslims from all over the world must visit at least once in their life time to complete the fifth pillar of their religion. This makes Saudi Arabia suffers from a tension in its international relationships mainly after the event of 911 because some of the western countries are holding the kingdom partially responsible for 9/11.

This political situation is one of the main strength of the restaurant industry in Saudi; with no cinemas or night clubs, eating out becomes the main

source of entertainment for most of the population. There is an appetite for new restaurants that exceeds any other region in the world[2].

The effect of the Saudi law and Regulation on the restaurant industry

The recent ruler of the Saudi Arabia, king Abdullah, is respected internally and internationally for his efforts to fight terrorism and his large amount of public spending on reform plans have helped the country to overcome[3]most of its economic obstacles.

The kingdom's major step toward reform was the application for membership of the World Trade Organization (WTO) and making consistent legal changes to meet with its requirements, but still there is mistrust from the Privet sectors toward the government, because of the unnecessary bureaucratic practices and inappropriate regulations that are seen as burdensome for the competitive market. Some areas are over regulated while others are under regulated. It takes almost six months to register a company, and the company must give a proof that it has substantial sum of money to invest, not less than \$10, 000.

However, the regulatory changes made in recent years appear to have been of most beneficiaries to those Saudi companies which are seeking to expand through alliances with foreign investors[4]. Nevertheless, the law requires foreign investors to have a Saudi partner and the Saudi partner, individual or company, will have the majority of control over the business.

Over all, the legal process is very complex and financially risky whether you are opening a small business or a major enterprise. The government should amend these processes to encourage foreign investments.

The effects of Saudi economic on the restaurant industry

The Kingdom is experiencing accelerated growth due to recent oil price spikes. The positive effect has been a rise in per capita GDP from approximately \$8100 (1999) to \$9575, or 18%, by 2005. Combine this with the fact that the Kingdom has one of the world's fastest growing populations (3.5% per year) and you are faced with an expanding market with good disposable income levels.

AC Nielsen research reports that the Saudi economy is expected to grow 8.7% this year, mainly fuelled by the high oil prices as well as strong private sector growth[5]Saudi remains the largest market in the entire Gulf. Many view Dubai as the showcase but Saudi proves to be the sales room and cash generator.

Due to fact that Saudi Arabia is a third world country, it depends on imported goods and technology, the government commitments to the economic expansion creates job opportunities for professional trained foreigners and depend on them to fulfill the country's ambitious development strategies. According to HSBC Bank Saudi Arabia is classified as the second in the wealth of professional trained foreigners. Saudi Arabia is ranked twenty two among other countries in the tourism sector.

Moreover, Saudi Arabia hosts over five million pilgrims yearly from all over the world coming for Hajj and Ummrah. Hajj is one of the five pillars of Islam which all Muslims must perform at least once in their life time. The restaurant industry is one of the major Beneficiaries from such advantage.

Therefore, the government has been actively considering to expand what is believed to be billions of dollars worth of income in the tourism sector by attracting international tourists to the Kingdom's historic sites, in the mid-2008, a package of new relaxed visa rules were released allowing many groups from Europe to visit the Kingdom with a group tourist visa, which years before was unheard of. This policy has created a new segment for the Saudi restaurant industry.

Also, the large number of foreigners, coming as workers or as tourist and pilgrims, with their ethnic background are considered the back bone for the restaurant industry.

The effect the social characteristics on the restaurant industry

Tradition and religion encourage Muslims to be hospitable and sociable.

Inviting guests and friends to banquet in their home is the norm in Saudi Arabia.

In Saudi Arabia Segregation between opposite gender exist in most sectors of public eservices, schools, universities, banks, this segregation unlocked job opportunities for large number of Saudi females. In the last few years it became easier to entertain guests and family to a restaurant for the busy

working females or even have the restaurant food and staff to entertain them at home.

Dining out became a habit among all social classes in the Kingdom with the lack of other entertainment venues due to religious issues. Therefore the trend of eating out is constantly growing among them.[6]

This social characteristic will have a blooming and flourishing effect on the restaurant industry in Saudi Arabia where the main entertainment is going out restaurant.

Perhaps the most pronounced feature of the demography is its young population where more the 59% are under 24 years of age. And part of the Saudi government or reform is to develop its workforce; to achieve this goal the government sends over one hundred thousand young students to peruse their higher education in highly developed countries every year. These large numbers of young people live abroad for almost five to seven years comes back with food and restaurant likes that they adopted during their scholarship.[7] This opened the door widely for international franchise in Saudi Arabia. Some of the franchises that are currently present in Saudi Arabia, McDonalds, Hardee's, Burger King, Popeye, Chilies, TGI, Fuddruckers, Pizza Hut among many others and are very popular among this young population along with foreign workforce, tourist, and pilgrims.

The effect of technology and the environment of the restaurant industry

The last of the two macro marketing environment forces are the technological and the environmental:

In Saudi Arabia Technology in the restaurant industry is not limited to basic kitchen appliances and tools. However, one may not expect some complex equipments are used in the restaurant industry. Many restaurants are leading the way in regards to credit card processing and point-of-sale technologies, introducing new ways to serve their customers and increase the overall convenience of the dining experience. Of course, restaurants chains and franchise are the main benefactors of this development in communication[8]

In Saudi Arabia there is no significant awareness from the government or most of the population to the environmental issues. All the restaurants that uses recycle paper or green energy are mostly international franchise applying their Owen corporate policy as part of their responsibility

Porter's 5 Forces Analysis

Threat of New Entrants. The restaurant industry is the easiest to enter basically anyone who can cook, with the minimize capital amount can enter the business. Barriers to enter this industry are mainly in the bureaucratic regulation that might take time but this is not considered a serious barrier.

Power of Suppliers. While there are plenty of food supplies, but they depend on imported material because Saudi Arabia is not an agricultural country. The import of food and foodstuffs are estimated to exceed \$7 billion annually and the Kingdom remains the leading market in the region. Except for date and milk all other raw materials are imported. There are big numbers of suppliers and prices are controlled by the government. Only international

food chains franchise might be obliged to buy its raw material from a certain supplier.

Power of Buyers. The balance of power is shifting toward buyers. With so many restaurants the competition is very high. Buyers are always looking for the best quality and price. Going to restaurant is not an essential; people are always ready to try something new. With Variety of products to choose from, local, ethnic, and western couple with intense competition lead buyers seeks lower prices and better services. Disposable income levels and an expanding shopping mall culture are assisting this growth

Availability of Substitutes. Substitutes for the restaurant industry in general include alternative form of entertainment like cinemas or night club. The available entertainment substitute is the shopping malls, where people will go shopping, or window shopping. Most fast food chains are showing positive growth and are ever present in all the new shopping malls

Competitive Rivalry. Even though there are no figures revealing the size of this lucrative market, a high industry growth rate is intensifying the competitive rivalry the presence of so many available substitutes are a particularly challenging situation for some firms

SWOT: Strengths – Weaknesses – Opportunities – Threats

The Saudi restaurant industry is weak in economies of scale and labor productivity. Its strength is the ability to attract huge capital and labor with its openness to the world market. The restaurant industry is showing significant growth, on the other hand, this open market has intensified an open competition. The diversified culture of Saudi Arabia is the key to exploit ‘

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Economies of scope'. Also, exploiting the economies of scale is also an opportunity.

The consumer preference for differentiated and healthy products is also another opportunity to exploit in enhancing the economies of scope.

Although, the anticipated low population growth in the future could be a major threat as it would decrease the quantity of demand coupled with the increase in the retail chain the significant increase in small households and working women will create new opportunities for the restaurant industry.

Conclusion and recommendation:

In this assignment we carried out an analysis of the restaurant industry competitiveness in Saudi Arabia by employing three different analytical tools, PESTLE Analysis, Porter Five Forces, and SWOT Analysis. Based on our analysis we concluded with the following findings and advices to any new firm considering entering the restaurant industry in Saudi Arabia.

The strength of the restaurant industry lies on its ability to attract huge capital and labor with its openness to the world market. The restaurant industry is showing significant growth faster than anywhere in the world.

Many factors have contributed to this fast growth as such as the political, economical, and low labor market and other socio-cultural factors.

The economical and political outlook for restaurant industry in Saudi Arabia is very encouraging, government shows commitment and support to economic growth which is reflected in its double-digit increase in

government expenditures on many aspects that are related to the restaurant business.

Furthermore, currently, the government economic plan emphasizes the strengthening the growing private sector business opportunities with focus on increasing the national and foreign investments as public spending has increased by 15.8% the government has increased the budget for new projects by 36%.

One of the most promising aspects for the restaurant industry is the social changes in Saudi Arabia. For example, the role of females in the social and economic life is dramatically changing as women are now allowed to enter the work force and have huge impact on the purchasing power and certainly a change in women's lifestyle that is favorable to the restaurant industry.

On the other hand, the legal process in Saudi is very complex and financially risky whether you are opening a small business or a major enterprise. The government should amend these processes to encourage further foreign investments. Also, the Saudi restaurant industry is weak in economies of scale and labor productivity.

Based on the above findings, we strongly recommend and encourage any firm to enter the Saudi market keeping in mind the following points:

The restaurant industry is highly competitive in terms of price, service, location, and food quality and is affected by changes in consumer trends, economic conditions, demographics, traffic patterns, and concerns about the nutritional content of foods.

shifting dietary preferences among consumers in favor of alternative foods
can open the doors for niche market

The growth of the restaurant industry is expected to generally stay the same over the next few years and it can be considered a blue ocean.

The restaurant industry is affected greatly by globalization and it will continue to be.