

# Entering a new market essay



**ASSIGN  
BUSTER**

[pic] Albert Heijn goes to Dubai Authors James Lawton Max Zijlstra Garrett Koolman Lecturer Dhrs. D. Boels Institute Stenden University Date June 5, 2009 Introduction "Conformity is the jailer of freedom and the enemy of growth". John F. Kennedy For our economic report, we chose to analyze the supermarket chain Albert Heijn, part of the multinational organization Koninkrijk (Royal) Ahold for the Dubai market. Albert Heijn is one of the leading food retailers in the Netherlands with over 800 stores. Its stores come in different formats and their wide product range caters to all levels of income.

Dubai has a blossoming economy that caters to the wealthy and middle income earning families, as unemployment in Dubai is only 2.5%. We believe the high quality of Albert Heijn matches the expectations of these consumers and will fit into this market perfectly. Unfortunately the recent global economic crisis has had its effects on the economy of Dubai. This is mainly due to the fact that Dubai's economy's main driving force which is import/export of raw materials is intimately entwined with the economy of the United States.

But there is strong belief that the situation will bounce back as soon as faith and trust is restored in consumers and investors alike, as the secondary sectors of the market for example real estate increases and balances the shortages felt as a result of the lack of exports. On conducting research we have seen as an advantage for Albert Heijn the economic similarities between Dubai and the Netherlands are immense. Furthermore, for Albert Heijn to enter the market would not be as risky as one thinks as since 2004,

experts have estimated that the number of Dutch people living and working in Dubai has almost quadrupled.

We believe that this will make it easier for Albert Heijn to penetrate the market by using ethno-marketing strategies which would target the Dutch population first to gain a foothold in the market and later focus on providing services to the local population as well. In this report we will describe the country of Dubai and how the supermarket chain complements each other. We will also analyze the demographic situation, ecological and economical situation of Dubai. Finally we will provide a SWOT analysis and a Porters Five Forces analysis of Albert Heijn to get a better grip on how it could fit into the Dubai market.

Background of Dubai and Albert Heijn The Country of Dubai Our report is based on the launching of Albert Heijn, a Dutch supermarket chain in Dubai. So our report will be focused on Dubai, but it must be mentioned that Dubai forms part of United Arab Emirates. This Middle Eastern Federation consists of seven countries. These countries are Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah and Um al-Quwain. Amongst these seven member states Dubai has the largest population.

The United Arab Emirates is rich in oil and natural gas, has been blossoming since the 1970s due to direct foreign investments. The HDI in Dubai is fairly high for an Asian country and is listed at 39th globally. The supermarket chain Albert Heijn Albert Heijn is one of the leading food retailers in the Netherlands. It is also one of the most recognizable brands in the Netherlands. The company was founded in the year 1887 its mission

statement has always been, “ to make the ordinary affordable and the extraordinary attainable” for its customers.

Today the company has over 800 stores in the Netherlands and has recently gone international to the Caribbean with a store in Curacao. It employs approximately 62, 000 people making it one of the largest employers in the Netherlands. Along with its wide range of unique products and services Albert Heijn also adopts the latest forms of technology available in food retail. As can be seen in the graph below the company that owns Albert Heijn has had steady growth over the past 5 years and is predicted to grow further.

This can be seen as a positive outlook for an expansion to Dubai as entry barriers such as capital and brand awareness will be easier to overcome.

[pic] SWOT of Albert Heijn Below is a SWOT analysis that we will be using as a strategic planning method, in this case we will use it to evaluate the strengths, weaknesses, opportunities, and threats of Albert Heijn involved in this particular business venture. Strengths • Leading food retailer in The Netherlands • Part of Royal Ahold multinational supermarket conglomerate. • Over 800 stores and 62, 000 employees Own private label • Private label accounts for 50% of sales • Brand recognition • Employs the latest technology in the supermarket industry • Brand recognition Weaknesses • Dutch company in a Arab country • Not much experience operating outside of Europe • Too much variety • Different standards in packing and distribution of food products • Quality control would have to be adapted Opportunities • Dubai is in its blossoming faze • Financing and Tax laws are

very favorable • Good trade regulations • DIFC has imposed 55, 5% foreign ownership for companies

Threats • International population is mostly Asian • Operating in the food retail might not go well with the culture • The economic crisis might cause foreign investment policies to change • Dutch standards in food retail might not go over well with Arab countries

Economics Demographic Dubai is located in Asia and forms part of the UAE it is the second largest country of the federation but has the largest population with an estimated population of 1, 450, 000. From the total population of Dubai 18% are native and the remaining 81% are internationals.

Dubai has been offering a prosperous future for immigrants who are in search of a better life and job. The blossoming economy of Dubai has lead to the need for manpower in the field of construction and service industry. The pay is not extraordinary high in these fields but is better than in most developing countries or other countries in Asia. Since we are looking to take Albert Heijn a food retailer to Dubai it is important to take the whole population into consideration. Age of Dubai population circa (2005) 0-14 years: 25. 3% (male 331, 269; female 317, 977) 15-64 years: 71. % (male 1, 115, 826; female 707, 058) 65 year and over: 3. 6% (male 66, 404; female 24, 678) The Dubai native speaks Arabic and the rest speaks Hindi, Urdu, Malayalam, Bengali, Tagalo, and English. This could be a challenge for Albert Heijn being a Dutch supermarket chain.

Political / Legal Environment The United Arab Emirates is governed by a constitutional monarchy. The monarchy is represented by its ruler Mohammed bin Rashid Al Maktoum, also being the Prime Minister of the United Arab Emirates. The United Arab

<https://assignbuster.com/entering-a-new-market-essay/>

Emirates' Supreme Council and its members choose the President and Vice President.

Further on, the President designates the Prime Minister with the Supreme Council's approval. [1] The constitution of the United Arab Emirates "separates the powers into executive, legislative, and judicial branches"[2]. The legislative and executive authorities are subdivided into the fields of federal and amirate. Dubai, as well as the rest of the United Arab Emirates, is judged by the Court of First Instance, the court of Appeal, and by the Court of Cassation. There is an additional court, the Shari'a Court, which deals with problems arising only among Muslims.

It is important to emphasize that the non- Muslims do not appeal against the Shari'a Court. If any dispute arises between a Muslim and a non-Muslim, they must attend the Court of First Instance to begin with. The Islamic Law System, known as the Shari'a " derives from four sources: the Holy Koran, Sunnah, Ijma and Qiyas, being the Koran the principal source"[3]. In the Shari'a law, " a person is presumed innocent until proven guilty". In a court, the claimant and the defendant are seen equivalent. The claimant needs eyewitnesses, at least two, to prove himself innocent.

If the claimant fails to present eyewitness to court, he must swear an oath to prove his innocence. This ancient law also allows the imbursement of " blood money for the injury or death of a person. This can be requested by the victim's family as compensation".<sup>3</sup> According to this law a minimum sum for a male Muslim is worth \$24, 000. This amount can be doubled if the event occurs during the Ramadan. Dubai is also known for its numerous foreign

workers, therefore the Constitution of the United Arab Emirates “ provides equitable treatment of persons with regard to race, nationality, religious beliefs or social status” [4].

But, it has been proved that these foreigners are mistreated, especially those who work for massive construction sites. The United Arab Emirates, and Dubai consequently, is an active member of “ the Arab League, the Arab Gulf Cooperation Council, the United Nations, the World Bank for Reconstruction and Development, the International Monetary Fund, the International Labor Organization, the United Nations Educational, Scientific and Cultural Organization, the International Organization for Industrial Development, the World Health Organization, among others” 1.

This gives Dubai a wide variety of opportunities to rely on external help, if needed, but as well for a socio-political and economical development. Dubai offers a gateway to new business throughout the Jebel Ali Free Zone or the Dubai Airport Free Zone. A free zone is “ designated areas where companies are taxed very lightly or not at all to encourage development or for some other reason”[5]. Licenses are granted according to the business type; “ industrial, service, or national-industrial”[6]. Dubai promotes its Free Zone with special benefits for each and every business.

Dubai guarantees “ 100% is foreign ownership, receive an exemption from all import duties, 100% repatriation of capital and profits, freedom from corporate taxation, inexpensive energy, simple and efficient recruitment procedures, and a high level of administrative support from the local authorities. A foreign business wishing to enter the Dubai market by the

means of supplying goods and services from overseas can find a certain advantage by the appointment of a commercial agent. There is a process of authentication by a local lawyer as well as the Dubai authorities.

As the agent is authorized and authenticated, the agent is “entitled to territorial exclusivity, and will receive infringement commissions on transactions concluded through others within the agent’s area of activity”[7].

Ecological Dubai is new wonder of the world and has shown the endless possibilities that money can create. In Dubai man has created four man made islands in order to attract tourist and the offer luxurious vacations for the wealthy. An estimated 4.5 million tourist visit Dubai yearly.

The summer temperature in Dubai reaches 40 degrees Celsius, so the high season for tourism is from November through March. In these months the weather is cooler. Due to lack of tourism during the summer months, visitors can make use of the better deals in offered to stimulate the local economy.

Economic At the moment Dubai being part of UAE is one of the most developed countries globally, based on many socio economic indicators like its GDP per capita, its consumption of energy per capita and its HDI.

According to statistics Dubai and the UAE have one of the fastest growing economies in the world.

The Ministry of Finance and Industry have released the figures of the nominal GDP of the Dubai and this has shown that it rose by 35% in 2006 to an amount of \$175 billion, compared to \$130 billion in 2005. Although Dubai and the UAE look to wean off their dependency for income on natural resources, the export of petroleum and natural gas are still to important



elements in its economy. The recent construction boom, a growing manufacturing base and a fast rising service industry have all lead to the diversification of the Dubai economy. Nationally there is approximately \$350 billion worth of active construction projects.

Macro- Economic trend of Dubai | | | Year | GDP (millions of AED) | US Dollar Exchange | Inflation Index (2000= 100) | | 1980 | 109, 833 | 3. 70 Dirhams | 85 | | 1985 | 100, 400 | 3. 67 Dirhams | 57 | | 1990 | 123, 541 | 3. 67 Dirhams | 69 | | 1995 | 157, 144 | 3. 7 Dirhams | 89 | | 2000 | 259, 247 | 3. 67 Dirhams | 100 | | 2005 | 491, 265 | 3. 67 Dirhams | 121 | The chart above shows the trend of the gross domestic product of Dubai and the UAE at their market prices according to the International Monetary Fund with figures taken in millions of Dirhams.

The exchange rate in US Dollar of the Dirhams is only 4. 41, and the average wage in 2007 is approximately \$210-254 per day. For 2003, Dubai and UAE produced approximately 2. 3 million barrels of oil that is an equivalent of 370, 000 m<sup>3</sup> daily. It has been said that Dubai is looking at less the 10 years of oil left at this current production level. The resources left in Dubai's remaining gas reserves are already earmarked for Dubai that is the Dubai Aluminium Company Limited and is one of the largest smelters of aluminum in the world.

External Trade A large increase in imports has developed in manufactured goods, machinery and transportation equipment this also accounts for 80% of imports in Dubai. Approximately 200 factories operate in Jebel Ali complex in Dubai. Take into account that the deep water port and free trade zone all

fall under the Jebel Ali complex. Here manufacturing and distribution of goods for re-export all enjoy a 100% duty exemption. This complex includes a power and water desalination plant, an aluminum smelter and steel fabrication complex.

And now the complex is undergoing expansions again with parts of the land being set aside for developments of different sectors of industry. The most recent development has been a large international passenger and cargo airport, Dubai World Central International Airport, all part of the Jebel Ali. Due to the fact that Dubai is a member of the Gulf Cooperation Council, it must comply with a number of activities and regulations of economic nature. Amongst these regulations Dubai must employ a regular consultation and development of common policies that cover trade, investment, finance, transportation, telecom and other technical areas.

Dubai must also employ means of protection for intellectual property rights. Most recently it has been shown that Dubai has diversified itself in order to find new sources of revenue. These have come in the form of High-class tourism industry and international finance. The Dubai International Financial Centre has announced that it would offer 55. 5% foreign ownership, which includes not withholding tax. DIFC has also announced the freehold of land and office space. Inflation The inflation of the United Arab Emirates has been predicted to be 14. 4% in 2008.

This percentage entails that the currency is decreasing by 14. 4 percent annually. Ultimately this will negatively effect the purchasing behavior of the consumers, since the purchasing power is diminishing.. Taking into account

that the percentage of inflation remains stable, the money will lose value and more money will be needed to buy a product. GDP of Dubai [pic] Although there is a drop in the GDP from the first quarter of 2008 as seen in the graph above, Dubai has with a GDP – per capita of \$28, 125 and with a total GDP of \$132, 221 million (2008) indicates a very wealthy economy.

The real GDP growth is estimated to be 12. 5% on which certainly an accelerator effect has a big impact. Further more the private final consumption expenditure per capita of \$14. 063 and the gross domestic savings per capita of \$9, 841 indicate a very good purchasing power at potential shopping mall clients. Although the Emirates are commonly known for their Oil and Gas output, come 40 % of their GDP from the service industries what might be one of the reasons for their world’s best employment rate of 85. 24% with a growth rate of 6. 19%. The biggest share of the service’s part of the GDP has got the tourism industry in which Dubai is investing a lot to compensate the facing scarcity of oil. Although the oil production is controlled by the government, we can say that in the case of the other industries they function mostly according to the principles of a free market economy. Also world-class, Dubai’s aggregate monetary demand of about 83. 03% shows that its population is quite wealthy in contrast the high inflation rate of 12. 5% in 2005 indicates a relatively high annual loss of purchasing power.

**Unemployment** The UAE unemployment rate is at around 4 per cent in 2009. This a relatively low percentage compared to the global world, which turns to our advantage, since employed people possess more money to spent on groceries. Having such a low unemployment rate can also have a negative

effect on our business, as this could indicate high wages. Wages Although low unemployment rates normally translates into high wages due to the laws of supply and demand as there is a shortage of workers, this is not the case in Dubai.

The most significant difference is that there is no such thing as a minimum wage, and because of this, there are people working 8 to 12 hours a day for a fixed amount of money, but this is normally for unskilled labourers. Skilled individuals normally have fixed timings of work and a fixed salary, which is paid around the beginning of each month for the previous months work. A regular individual will normally make between Dhs. 2, 000. 00 (390. 00 Euro's) and Dhs. 4, 000. 00 (783. 00 Euro's) per month. You won't find jobs that pay per hour or companies that will pay wages at the end of each week.

Infrastructure UAE alone account for 60 per cent of all airport investment in the Gulf. Geographically, the country's reach is considerable, sweeping through Africa and the Middle East and linking these regions to Europe, Asia, Australia and the Americas. Over AED 77. 5 billion (US\$28. 4 billion) is being spent to develop 7 airports in the UAE. The Dubai Government has also come up with a plan to enhance and integrate the existing road network with the public transport system. This strategic plan will cater to the existing and future road development requirements in Dubai until 2020.

The government has allocated a budget of AED 44 billion to develop road infrastructure that will add 500 km of new roads in the emirate. Furthermore, the UAE has over 20 ports, ranging from state-of-the-art oil terminals, industrial ports and container-handling facilities to dhow and wooden-boat

wharfs. Jebel Ali Port, DP World-UAE's flagship terminal in Dubai and the eighth largest port in the world in terms of output, was awarded the title of 'Best Seaport -Middle East' for the thirteenth consecutive year at the Asian Freight and Supply Chain Awards (AFSCA) 2007. Conclusion

Dubai has changed dramatically over the last three decades, becoming a major business centre with a more dynamic and diversified economy. Dubai enjoys a strategic location and serves as the biggest re-exporting centre in the Middle East. Its low logistical and operational costs and excellent infrastructure, international outlook and liberal government policies are attracting investors in a big way. Activities such as trade, transport, tourism, industry and finance have shown steady growth and helped the economy to achieve a high degree of expansion and diversification.

<https://www.recruitment.guru/results/appsc-ae-mains-result/>

<http://countrystudies.us/persian-gulf-states/>

<https://www.justlanded.com/english/Dubai/Dubai-Guide>

<https://en.wikipedia.org/wiki/Dubai>

[https://en.wikipedia.org/wiki/Free\\_economic\\_zone](https://en.wikipedia.org/wiki/Free_economic_zone)

[http://www.dubai.ae/en/Lists/GovernmentDepartments/DispForm.aspx?](http://www.dubai.ae/en/Lists/GovernmentDepartments/DispForm.aspx?ID=7;category=Government)

[ID= 7; category= Government](http://www.dubai.ae/en/Lists/GovernmentDepartments/DispForm.aspx?ID=7;category=Government)

<https://www.visitdubai.com/uk/>

<https://assignbuster.com/entering-a-new-market-essay/>