

The Kingdom of Saudi Arabia



Nabil Nassar, KSA manager at hodema consulting services, takes a closer look at the hospitality sector opportunities in a challenging environment

The hospitality sector's forecasted figures for 2013 will surely identify Saudi Arabia as one of the most dynamic hospitality sectors in the region and one with the highest potential for growth. Indeed, Saudi Arabia appears as the leader in future developments of hospitality projects in the region, including independent and chain hotels, furnished and/or serviced apartments, food and beverage ventures, as well as retail complex developments.

It is only recently that Saudi Arabia has effectively emerged as a dominant player within this landscape, supported by several governmental, social or infrastructural factors. First, several government initiatives have contributed to the change in the "business environment", encouraging business entities and corporations to enter the market.

Second, the increased number of travelers coming to KSA, whether pilgrims visiting for Umrah and Hajj, or expatriates in search of higher compensation levels, will strengthen the hospitality sector's growth and sustainability for the coming decade. Finally, a substantial number of mega projects are at last coming to fruition, following several years of studies, search for partnerships, negotiations and strategic planning.

KSA's government initiatives

With another year of stable economic performance for Saudi Arabia in 2012 projected by most analysts in the region, initiatives have been put in place mainly by the government encouraging economic diversification and a more competitive business climate.

However, despite a strict control of the state over Saudi Arabia's economic activity, with budgeted spending reaching USD 65 billion this year, or the equivalent of 15 per cent of GDP, reform measures continue to be implemented.

Starting 2011, and until 2014, a total of approximately USD 375 billion would have been spent on social development and infrastructure projects with the aim of boosting economic development.

On the other hand, several opportunities for economic growth exist in the Kingdom due to strong underlying aspects of its economy, such as rising disposable incomes, increasing acceptance of the concept of modern retailing, a youthful population and an enlarged consumer base created by the improved position of women in the society.

Furthermore, the expansion of certain industrial sectors such as services and retail have been strengthened due to a continued growth in trade with Asia, and the opening of trade channels with the wider Middle Eastern region. And this is expected to continue.

A regional magnet

Pilgrims and expatriates are fighting for access to the Kingdom. As custodian of the Holy Mosques, Saudi Arabia attracts a worldwide total demand for pilgrimage of 1.8 billion Muslims. Following the opening of Umrah period throughout the whole year, statistics report the visit of over 7 million Umrah pilgrims per year while 2.5 million pilgrims are estimated to visit Saudi Arabia during the Hajj period. The Saudi Tourism Information & Research Centre reported an estimated amount of SAR 25.9 billion spent by inbound tourism in Saudi Arabia, whereas Makka Al Mukarramah and Al Madīna al Munawwarah have the highest footfall statistics in the world.

Nevertheless, Saudi Arabia does not only attract "short stay" religious tourists, but, also expatriates coming to Saudi on average for 2 to 5 years assignments, in search of higher compensation levels or career boosters.

To that effect, the newly implemented Nitaqat program regulates and controls the flux of

foreign workers within the Kingdom through the establishment of a Saudization quota system per industry. In an attempt to decrease the Kingdom's dependency on expatriate population and increase the Saudi employment, Nitaqat program was tailor made to provide the right business environment for companies to develop successfully within the different industries of the country (i.e. construction, oil and gas, services, banks and financial institutions, hospitality and leisure, etc.). The construction industry, for example, was granted a special treatment under this program. The lack of expertise in some engineering disciplines and the

general labor shortage issue were both solved by authorizing extremely low Saudization rates (proportion of Saudi employees compared to the total number of employees within a company) within construction companies under the Nitaqat program.

With four migrant workers for each Saudi native in the labor force, it is likely that Saudization efforts will only displace a small fraction of foreign workers and KSA will remain dependent on those.

While Nitaqat remains today the best-formulated program of expatriate regulation and Saudization launched by the government so far, many ruses



exist to meet the programs requirements, without really changing the employment landscape within the Kingdom. A period of adjustment is certainly needed. (Figure 1)

approved and signed for the approximate amount of USD 5.5 billion. The project will cover KSA north to south, and will mainly generate its revenues from the transport of goods. The project also includes the manufacture of 5 passenger train sets as well as 6 passenger stations in Riyadh, Majmaa, Qasim, Hail, Jouf, and Quriyyat. This comes to solidify the urban transportation network being created, which will cover KSA's major cities, including Jeddah, Al Madina al Mounawwarah and Makkah al Mukarramah. A 1.000 km line will connect Riyadh to Jeddah, giving Saudi Arabia its first coast-to-coast railway link.

Mega projects and improved infrastructure

In 2011, the late Prince Sultan laid the foundation stone for a huge new King Abdulaziz International Airport (KAIA) in Jeddah. The USD 7.2 billion development, part of a comprehensive program to develop Saudi Arabia's domestic airports, will increase KAIA's capacity to 35 million passengers annually and raise its profile as an aviation hub linking east and west.

The new airport will facilitate the arrival and departure of the increasing numbers of pilgrims travelling to the holy city of Makkah for the annual Hajj. It will also support the comprehensive development of the holy city, for which a 20-year development plan involving investment of around USD 25 billion has been prepared.

The new Princess Noura Bint Abdulrahman University in Riyadh, which opened in March 2012, is designed to become the largest women-only university in the world, accommodating up to 40,000 students.

Last, but not least, a north-south railway project has recently been

“21,000 chain hotel rooms are expected to be introduced into Saudi Arabia's main cities between 2012 and 2015 to cope with the increase in travelers to the Kingdom”

The project hopes to cut transport times, boost efficiency and open new opportunities for the country to become a transport hub for the region.

Figure 1. Nitaqat program expected results

Nitaqat program

- The company loses control over expatriates who can change employer without approval. The company has no access to new, substitute or seasonal visas, nor the right to renew or change existing work certificates.
- The company loses control over expatriates who can change employer without approval. The company has no access to new or seasonal visas, can't change employees statuses and has limited access to substitutes.
- The company has access to those expatriates working for companies in red or yellow categories (quota system). The company has access to new visas or substitutes, and benefit from 6 months grace periods in terms of tax payments
- The company has access to visa demands for all positions as per Saudisation industry rate. The company has the right to change employees' status and renew work certificates. The company has 12 months grace period in terms of tax payments and income certificates renewal.

Expected results

1. Encourage the development of all sectors to increase job opportunities in diversified fields
2. Divide sectors into sub-sectors to define the range of foreign employment allowed in proportion with the sector's size
3. Decrease Saudi unemployment with the creation of a million jobs for Saudis in the short-term (five years) and long-term (20 years)
4. Develop the skills of Saudi workers
5. Reduce the expatriate workforce to levels not to exceed 20% of the Saudi population
6. Reduce money transfers to expatriates home countries to protect the local economy



Julycool (Twilight at Jeddah)

Opening the way to hospitality, and F&B developments

Within the hospitality sector, the above projects translate in an increased number of hospitality developments underway, mainly in Makkah province including Makkah al Moukarramah, al Madina al Mounawwarah and Jeddah.

Riyadh will also see its landscape change, as the High Commission for the Development of Riyadh (HCDR) has recently approved a series of construction and service facilities for its two new urban centers in the eastern and northern parts of the city. The Northern Urban Center will include Prince Salman Park in Bunyan and the Durrat Al-Riyadh Project in addition to Prince Sultan Humanitarian City.

In terms of hotel openings, recent announcements have accounted for the introduction of almost 21,000 chain hotel rooms ranging from 3 to 6 star hotels between 2012 and 2015 in the Kingdom's main cities (Figure 2).

Several openings are in the pipeline as well on the food and

beverage scene in the Kingdom, with Jeddah and Riyadh spearheading this sector.

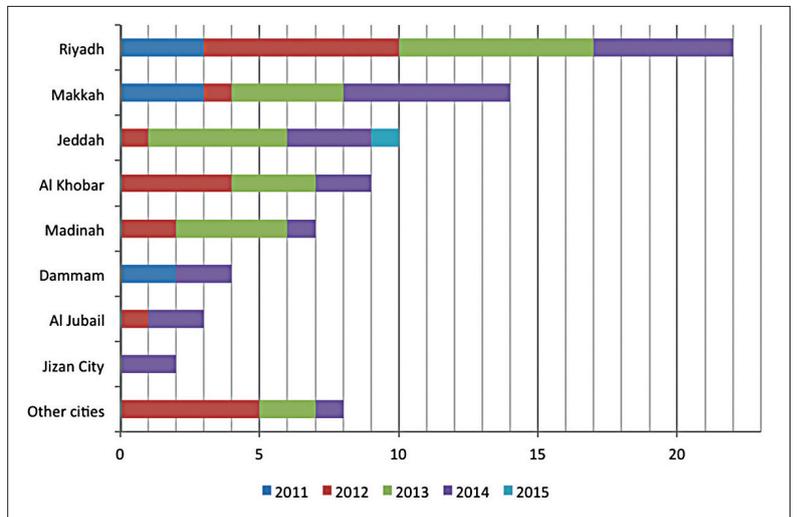
In an environment where the act of buying is part of the lifestyle and cultural activity, retail activities have shifted towards malls, replacing old markets and souks all over the Kingdom. The food and beverage sector in KSA's main cities has developed a winning formula.

"Food and Beverage Clusters" now rival in order to offer customers a more modern and stylish dining experience in a specially conceived environment and developers are joining forces with restaurateurs with the aim of building a consumer experience with both a social and entertainment purpose.

Understanding the market

Irrevocably, with an increasing demand for better quality products and services, enhanced consumer journeys, family oriented malls, and unique shopping and lifestyle experiences, developers have now to study further their developments through the introduction and creation of diverse destinations, including hotels, apartments, pedestrian

Figure 2. Number of hotel openings per city per year



Source hodema, research 2012

areas, museums, libraries, retail areas, all supported by efficient and user friendly transportation systems.

The trend to copy and paste winning formulas outside of Saudi Arabia has led to incremental failures when applied domestically.

New entrants have to develop innovative business models, establish clear unique selling propositions and differentiating

factors, and identify clearly their ventures' positioning and target segments in order to avoid saturation and guarantee sustainable growth.

Understanding KSA's demographics remains the key to successful future developments. Identifying Saudi talent and participating in the growth of local human capital is essential today in the KSA, in order to retain staff and ultimately reach levels of excellence in customer service.

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