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Saudi Arabia

Retail Foods Update 2012

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Report Highlights:

Saudi Arabia has a vibrant food retail market, with several major retailers engaged in aggressive expansion plans in response to changing consumers' preferences and increased competition. In 2012, about 24 supermarkets and hypermarket outlets were added to the growing retail food network in Saudi Arabia. Saudi food retailers carry a wide range of products, from domestically processed food to imported upscale specialty and organic food products. U.S. exports of consumer-oriented products to Saudi Arabia have been rapidly growing, totaling \$445 million in 2011 and about 37 percent higher than 2010. The fast growth of retail food outlets in Saudi Arabia provides an excellent opportunity for U.S. suppliers of consumer products to expand their exports throughout the Kingdom. This report provides an update on the Saudi retail food market structure and information that the U.S. exporters would need to enter this important market.

I. MARKET OVERVIEW

Most recent trade data available shows that Saudi agricultural and food imports in 2011 totaled \$14.6 billion (exporting countries/FOB basis). This represent an increase of about 28 percent over imports in 2010, and was mainly due to population growth, increased number of pilgrims to Saudi Arabia, and significant hike in world prices of agricultural commodities. Consumer-oriented food products account for about 35 percent of total Saudi agricultural and food imports, totaled roughly \$5 billion in 2011.

According to U.S. Customs data, Saudi Arabia imported more than \$1.3 billion worth of agricultural and food products from the United States in 2011, an increase of 55 percent compared to 2010. As shown on the table below, U.S. exports of consumer-oriented products to the Saudi market have been steadily growing at a fast pace, totaling \$445 million in 2011, about 37 percent higher than 2010.

| Calendar Years (January-December) | | | | | |
|--|----------------|----------------|----------------|----------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Bulk Total | 275,493 | 303,818 | 242,830 | 284,590 | 550,917 |
| In | 263,468 | 341,608 | 202,973 | 229,404 | 310,807 |
| Consumer Oriented Total | 171,108 | 244,439 | 248,055 | 325,604 | 445,002 |
| Forest Products | 16,370 | 21,051 | 20,767 | 20,946 | 24,937 |
| Fish Products | 655 | 2,775 | 6,603 | 1,404 | 1,269 |
| | | | | | |
| Agricultural Products | 710,069 | 889,865 | 693,858 | 839,598 | 1,306,726 |
| Ag, Fish & Forest Products | 727,094 | 913,691 | 721,228 | 861,948 | 1,332,932 |

Source: U.S. Bureau of the Census Trade Data

The vast majority of food products are subject to a 5 percent import duty. Selected processed food products, however, are assessed higher import duties. In order to protect local food processors and production from competitively priced imports, Saudi Arabia ties import duties to the level of local production of similar products. As a general rule, a maximum import tariff rate of 40 percent is applied when local production of a food or agricultural product exceeds a self-sufficiency level.

Food products made in the United States are generally viewed as meeting higher quality standards compared to imports from other countries and those produced locally. Under normal political and economic conditions, U.S. origin and brand products have highly favorable consumer preferences and demand. Each year, several new-to-market U.S. food products are introduced to Saudi Arabia market particularly following FMI/USFES, and regional shows such as ANUGA, SIAL Paris and Gulfood. Saudi consumers like to try new products and are shopping more often in hypermarkets and supermarkets. The rapid increase in the number of hypermarket and supermarket outlets throughout the Kingdom offers an ample opportunity to distribute high-value U.S. food products. Saudi Arabia's population is growing at about three percent annually and its population is projected to reach 40 million in the next 20 years. With a young and rapidly growing population, Saudi Arabia will continue to be a growth market for U.S. food products in the years to come.

Advantages and Challenges

| Advantages | Challenges |
|---|---|
| The U.S. is considered a supplier of quality food products. Major retail chains are constantly looking for new to market U.S. products. | Price competitiveness of local products and imports from Arab and Asian countries has impacted U.S. market share. |
| Saudi Riyal (SR) is pegged to the U.S. dollar at the rate of \$1 to 3.75 SR. | Freight costs from the U.S. are higher than those from export competitors in Europe and Asia. |
| High per capita income and purchasing power help increase demand for relatively expensive imports | Local importers prefer to initiate business deals with small orders; conditions many U.S. exporters are not willing or able to meet. |
| Hypermarkets have become popular destinations for shopping as well as family outings. | Saudi Arabia maintains dual date labeling system (production and expiration) for all food products. |
| The U.S. is recognized among the business community as a reliable supplier. | High markups, listing and other fees that major retailers charge significantly increase the cost of launching new products in the Saudi market. |
| Consumers have affinity for trying new food products. | Some food retailers require to get reimbursed for expired products they sell in their outlets. |
| Ready-to- eat meals, fast-food and take-away foods are becoming increasingly popular with young Saudi population. | General lack of brand awareness and loyalty by consumers. |
| The more than 7 million expats that live and work in Saudi Arabia create a strong demand for diversified and ethnic food imports. | Negative consumer attitude towards food containing or made from biotech products. |
| Saudi retail outlets are well equipped to carry all types of food products, including fresh as well as frozen items. | Some consumers perceive U.S. food products as overly promoting relatively unhealthy life-style. |

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

The Saudi import market for foodstuffs is dynamic, with new-to-market products introduced daily. Managers of Saudi supermarkets indicate that in order to survive in this highly competitive market, a wide array of products must be available to consumers. Recommendations applicable to new-to-market exporters who wish to enter the Saudi market include:

- Find a strong Saudi partner: A company with a professional sales force and a strong distribution network is desirable. The Office of Agricultural Affairs (OAA maintains lists of

key importers.

- Visit Saudi Arabia: OAA Riyadh can help with logistics. A visit will enable a potential U.S. exporter to see first-hand the types of products found in Saudi supermarkets, corner grocery stores, and wholesale markets; to view cold storage facilities, infrastructure, and to meet one-on-one with key importers. Face-to-face meetings in the Arab world are very important and help build trust and confidence. Most Saudi businessmen speak fluent English.
- Understand Saudi Arabia's labeling and cultural requirements: A product label showing a woman's legs would not be acceptable, for example. Likewise, a product with a recipe inside the box calling for pork would not be accepted, nor a product containing alcohol. Saudi Arabian Customs rejected several containers of gelatin a few years ago because of the detection of traces of pork in the product, even though the product label clearly indicated beef gelatin. Alcohol is banned in the Kingdom as a product and as an ingredient.
- In December 2001, the Saudi Ministry of Commerce and Industry (MOCI) implemented its biotech-labeling requirement for foodstuffs containing biotech ingredients. Following is a summary of the MOCI's biotech labeling requirements:
 - Ban on Biotech Animal Products: One of the main features of the decree was an immediate and total ban on imports of foodstuffs containing genetically engineered animal products into the Kingdom. The directive did not justify this ban. However, OAA trade sources believe that the decision was taken to make sure that all imported foodstuffs are Halal and do not contain products from swine and other animals banned for consumption by the Islamic religion.
 - Positive Biotech Labeling: If a product contains one or more genetically modified plant ingredients, the information should be clearly communicated to the consumer by labeling. A triangle should be drawn and in it the text should read "Contains Genetically Modified Product (s)."
 - Bilingual Labeling: The biotech statement must be clearly written in both Arabic and English, with an ink color different from that of the main product table.
 - Health Certificate: Biotech products or genetically engineered products exported to Saudi Arabia must have been approved in the country of origin for human consumption. Each shipment must be accompanied by a health certificate issued by appropriate government agencies stating that the Biotech ingredient (s) used in the foodstuff are approved in the country of origin (United States) for human consumption. One certificate could be issued that certifies a list of biotech found in the food item.
 - Quality Standards: All genetically modified food products should be in compliance with legal and ethical controls observed in the Kingdom and must meet pertinent Saudi Arabian standards specifications.
 - Locally Produced Foodstuffs: Biotech labeling requirements also apply to locally produced agricultural products.

- Less than .0.9 Percent Maximum Biotech Threshold: MOCI requires biotech labeling if biotech content exceeds 0.9 percent of product weight.

Saudi Food and Drug Authority (SFDA)

In May 2009, Saudi Food and Drug Authority (SFDA) took over from the Saudi Arabia's Ministry of Commerce and Industry (MOCI) the responsible of inspecting imported high value food products for biotech content at the Kingdom's 27 ports of entry. In June 2011, the SFDA took over the responsible for setting new food standards and implemented existing ones from the Saudi Arabian Standards Organization (SASO). In the past, standards were set by SASO while imported foodstuffs were tested by MOCI at ports of entry. SFDA will take over from the Saudi Ministry of Agriculture (MOA) the responsibilities of inspecting of imported animal feed, fruits, vegetables and drugs in the next few months.

Random Sampling

SFDA randomly samples imported foodstuffs at ports of entry for testing. According to reports from SFDA, test results thus far have been good. Rarely have food products declared biotech free tested positive. However, there have been some cases of undeclared biotech presence detected in foodstuffs imported from Asian countries and a few from the United States. Companies involved in exporting biotech foodstuffs without proper labeling are banned from exporting food products to Saudi Arabia.

- Understand Saudi Arabia's shelf-life requirements: In December 2005, Saudi Arabia implemented a voluntary shelf life standard (manufacturer-determined use-by dates) for most foodstuffs, with the exception of selected perishable foods (fresh or chilled meat and poultry; fresh milk and fresh milk based products; margarine; fresh fruit juice; table eggs, and baby foods) that must meet Saudi Arabian Standards Organization's (SASO) established mandatory expiration periods. The revised standard (SASO 457/2005) no longer bans imports of food products with less than half of their shelf life remaining.

The requirements are as follows:

- Shelf life must be indicated by clear and unambiguous production and expiration dates. The use of any of the following statements for expressing expiration dates is permissible.
- Expiration Date
- Use by (date)
- Fit for (from the day of production)
- Use Before (date)
- Sell by date (for food products having an expiration period exceeding 3 months).

- Production and expiration dates should be declared on the package label in a non-coded manner as follows:
- Day-Month-Year: for foodstuffs with an expiration period less than three months.
- Month-Year: for foodstuffs with expiration exceeding three months.
- Dates shall be “engraved or in relief,” printed or stamped with permanent ink directly on all packages or on their original label by the producer only. Adding stickers for production and expiration dates is not permitted. Product labels may not show multiple production or expiration dates. Dates cannot be changed.
- Products with No Specific Expiration Date: products with no specified shelf life such as salt, spices, milled rice, etc., only the date of production or processing need be shown as: mm/yy.

OAA Riyadh recommends that when putting together an order for a Saudi importer, a U.S. exporter cross check information contained on his/her food label, including production/expiration dates, with the Saudi buyer. Our annual FAIRS Country and FAIRS Export Certificate Reports provide detailed information on Saudi Arabia’s food and agricultural import regulations, list and describe certificates that should accompany all food and agricultural product exported to Saudi Arabia. The following suggestions may assist prospective U.S. export enter Saudi Arabia’s imported consumer-oriented food products market:

- Provide Product Performance Information: Saudi importers and distributors usually like to know how a product performed in the United States in terms of sales before test marketing in Saudi Arabia.
- Attend FMI\NASDA and Regional Food Shows: It is vital that prospective U.S. exporters consider attending the annual FMI/NASDA shows as well as international expositions such as Anuga in Cologne, Germany; SIAL in Paris and the Gulfood Show in Dubai. The Gulfood Show is held every year in February. More information on international shows can be obtained by contacting the respective FAS office located in each country. Smaller domestic food expositions are held annual in Jeddah and Riyadh.
- Consider contacting U.S.-based consolidators that source American food products from wholesalers. OAA Riyadh maintains a list of major U.S. consolidators selling to Saudi buyers.

Doing Business with Saudi Importers

When searching for an importer to distribute U.S. food products, it is important to understand how domestic companies operate in Saudi Arabia. The section below outlines four basic types of importers:

1. Private labels are becoming common in Saudi Arabia. Some large Saudi importers purchase foodstuffs under their own brand names or import ingredients and pack locally using their own label.

Private labels with Arabic sounding brand names appeal to Saudis and other Arabs in the Kingdom. Others use labels with western sounding names to position their products as high quality American or European origin foodstuffs to appeal to Saudis as well as expatriates living in Saudi Arabia. Salim Basamah Company, perhaps the largest importer of grocery products in Saudi Arabia, uses its private label, "Goody" on a wide variety of food products imported from the United States. Another large importer uses an Arabic sounding private label, "Al-Alali" to appeal to Saudis and Arabs, even though a significant percentage of its products are of U.S. origin. Hence, a can of American peaches can be marketed in Saudi Arabia under several different labels: under an established U.S. brand such as Monarch or Libbys, under a Saudi private label: like Goody, Freshly or Al-Alali, or under a U.S. private label representing the exporter/consolidator: such as American Garden or AFFCO.

2. Some importers contract directly with U.S. manufacturers of national brands, such as Kellogg's, Campbell Soup, and Budweiser and usually require sole agency agreements. The Saudi importer will help build the brand, but will request support from the U.S. company. The U.S. manufacturer usually offers promotional and marketing assistance.

3. Some companies import a wide range of food products for mass distribution, employing the use of consolidators in the United States. Often, consolidators are sole regional agents of major U.S. manufacturers or brand owners covering the entire Middle East and African regions. Most U.S.-based consolidators assist Saudi food importers by sourcing products from wholesalers, such as Fleming, and providing services such as placing stickers on labels. Current Saudi regulations allow U.S. suppliers to place an Arabic language sticker on the original English language label. The stickers translate key ingredient and product information into Arabic. Stickering is a laborious task and many manufacturers do not want to bother with this. Most U.S. consolidators are based in Houston, New York, Miami and in other port cities that have large wholesalers.

4. Carrefour (French hypermarket chain), as well as many locally based supermarkets with the ability to handle large import volumes, are directly importing part of their needs. One local company that operates a modern supermarket chain imports several containers of U.S. food products monthly for sale in its stores and lends support to a wide range of brands without a binding agency agreement.

If a product has performed well in the market, a U.S. company may opt to go beyond the sticker stage and develop a bilingual label in both Arabic and English. Monarch is one of many U.S. companies that have developed bilingual labels for the Middle East. Non-alcoholic Budweiser beer was launched in the Kingdom in 1999, with a red, white, and blue bilingual label. However, a significant number of U.S. origin grocery items found in Saudi supermarkets continue to use stickers.

Saudi importers are constantly searching for new products, and often request support from suppliers for promotion and advertising. The Saudi consumer is discriminating, closely examining labels and looking for the best deal. Advertising is considered a necessity to win Saudi consumers. Two-for-one deals are very popular in large supermarkets in moving items that are approaching their expiry dates. Major Saudi supermarkets are in the initial stage of introducing category management. As the system becomes more popular, many product brands are expected to be eliminated.

Distribution Channels

The flow chart below highlights the different marketing channels through which a food product can arrive in Saudi Arabia from a manufacturing plant in the United States.



Food manufacturers normally sell directly to sole agency importers, wholesalers, or U.S.-based consolidators. Many U.S.-based consolidators buy from manufacturers and/or wholesalers. Some consolidators act as sole distributors for U.S. manufacturers in the Middle East. U.S. consolidators sell directly to Saudi importers and/or major Saudi supermarket chains, such as Tamimi Markets, Panda, or Danube Supermarkets. More than ten consolidators sell an estimated 80 percent of all U.S.

high value products exported to Saudi Arabia.

Major Saudi importers operate well established Kingdom-wide distribution networks and sell directly to retailers, institutional customers, and wholesalers. Corner grocery stores and convenience stores source their products locally from wholesalers.

Profiles of Major Saudi Supermarkets

Supermarkets and hypermarkets subsectors have become very important in recent years to distribute high value food products in Saudi Arabia compared to wholesalers and convenience stores which used to dominate distribution of retail packed food products in the Kingdom. The expansion in supermarket and hypermarket sub-sectors since 2004, because of entry of international retail chains in Saudi markets and expansion of domestic companies in major cities of the Kingdom, have helped changing consumer preferences and lifestyles. Major hypermarkets such as Carrefour, Hyper Panda, Danube and Lulu have succeeded in attracting a significant number of shoppers due to a wide range of product offerings, convenient location mainly in shopping malls. Overall retail sales in the Saudi Arabia in hyper markets and supermarkets have been increasing at more than 10 percent in the last few years. Despite that fact that hypermarkets and supermarkets carry more non-food items, food products account for a significant portion of their overall sales. This trend is forecast to continue as more hypermarkets and supermarkets are opened in cities across the Kingdom.

There are no food publications or supermarket journals in Saudi Arabia. As such, reliable food retailers' sales data and floor space figures are not readily available. Below is a summary of major retailers in Saudi Arabia.

Market Structure

A. Super Stores (Hypermarkets)

Hypermarkets which were introduced in Saudi Arabia in 2004 are huge (up to 200,000 square feet), with up to 50 checkout counters. They provide more than 55,000 items including foodstuffs, clothing, tools, toys, and electronics. To date, there are more than 60 hypermarkets dispersed in the three major cities of the Kingdom (Riyadh, Jeddah and Dammam). Saudi companies are not subject to income taxes, and financial information is not available to the public.

Major Saudi supermarkets such as Hyper Panda, Othaim, Danube, Lulu, Carrefour as well as Tamimi, the leading Class A supermarket in Saudi Arabia import a significant percentage of dry goods directly from the United States, employing consolidators. Tamimi imports chilled beef, and dairy products, fresh fruit and vegetables directly from the United States. Chilled beef, strawberries, apples, celery, lettuce, and other selected produce are flown in, while others arrive by ship in containers. These supermarkets and superstores attend U.S. based as well as regional shows such as Gulfood in Dubai, SIAL in Paris and Anuga in Cologne, Germany to seek new products and establish contact with potential U.S. suppliers

B. Supermarkets

Currently, there are more than 300 Class A supermarkets operating in the Kingdom. Smaller supermarkets using grocery carts are estimated at more than 150, and they are referred to as Class B supermarkets. A Class A supermarket is defined as a retail store with more than 1,000 square meters, five or more checkout counters with complete self-service, modern IT systems and which carries comprehensive grocery and other products such as produce, butchery, bakery, frozen, chilled, and non-food ranges. Products are supplied direct from suppliers.

Class B supermarkets have up to 500 square meters of store space and have two or more checkout counters. The stores are found in all major urban areas and medium-size cities of the Kingdom. The number of Class A and Class B supermarkets increased from about 80 in 1984 to more than 450 in 2011 and continue to grow. Factors that have contributed to the growth of supermarkets include more exposure to the West via satellite television and travel, changing lifestyles, and a craving by Saudi consumers for variety.

Competition among Major Retailers

The entrance of the French hypermarket chain Carrefour in 2004 along with the opening of Hyper Panda (a local chain) in the same year has launched a new era of retailing in the Kingdom characterized by a state-of-the-art shopping experience and aggressive competition. With more than 140 outlets, Panda Supermarket chain is the largest foodstuff retailer in the Saudi Arabia followed by Othaim which has 120 retail outlets.

Supermarkets and hypermarkets strive to reduce costs to enhance their competitiveness. They also try to increase their profitability by introducing various revenue schemes. Local importers are being asked for listing fees ranging from \$2,000 to \$27,000 depending on the size and power of the distributor. The bigger the distributor, the more power it has to negotiate a lower listing fee. In addition to listing fees, distributors are asked to provide a specified percentage rebate on total annual turnover, contribute to advertising campaigns and provide at least 60 day payment terms and reimbursements for expired items. Distributors frequently authorize retailers to conduct special offers to consumers such as buy one and get one free for products usually with 60 days or less of remaining shelf life.

Saudi retailers are constantly searching for new products, and often request support from suppliers for promotion and advertising. The Saudi consumer is a discriminating consumer, closely examining labels and looking for the best deal. Advertising is considered a necessity to win Saudi consumers. Some major Saudi supermarkets have introduced category management. As the system becomes more popular, many product brands are expected to be eliminated.

Profile of Major Superstores and Supermarkets

| Retailer Name & Market Type * | Ownership | No. of Outlets | Locations (city/region) | Purchasing Agent Type |
|--|------------------|------------------------------------|---|--|
| Panda Supermarkets | Saudi | 30 hypermarkets & 110 supermarkets | In major cities across the Kingdom and has one store in Dubai | Direct imports as well as domestic purchase. |
| Othaim Supermarket | Saudi | 120 supermarkets | Central, Northern, Eastern and Western | Direct importer as well as domestic |

| | | | | |
|-------------------------|---------------|---|--|--|
| | | | regions. | purchaser. |
| Farm Supermarkets | Saudi | 37 supermarkets | Eastern, Western and Southern regions. | Domestic purchaser. |
| Al Raya Supermarkets | Saudi | 29 supermarkets | Western and Southern regions. | Domestic purchaser. |
| Bin Dawood Supermarkets | Saudi | 19 supermarkets | Western and Southern regions | Domestic purchaser. |
| Tamimi Markets | Saudi | 14 supermarkets | Central and Eastern regions. | Direct importer as well as domestic purchaser. |
| Carrefour Hypermarkets | Joint venture | 10 hypermarkets | Eastern, Western and Central regions. | Direct importer as well as domestic purchase. |
| Danube Supermarkets | Saudi | 6 hypermarkets & 5 supermarkets | Western and Central regions. | Direct importer as well as domestic purchaser. |
| Al Sadhan Supermarkets | Saudi | 4 hypermarkets & 4 supermarkets | Central region. | Direct importer as well as domestic purchaser. |
| Balsharaf Supermarkets | Saudi | 12 supermarkets and 5 wholesale outlets | Central region. | Direct importer as well as domestic purchaser. |
| Sarawat Supermarkets | Saudi | 5 supermarkets | Western and Central regions. | Domestic purchaser. |
| Marhaba Supermarkets | Saudi | 5 supermarkets | Western region. | Domestic purchaser. |
| Lulu Hypermarkets | UAE | 3 hypermarkets | Eastern and Western Regions. | Direct importer as well as domestic purchaser. |
| Star hypermarkets | Saudi | 3 hypermarkets | Western region. | Domestic purchaser. |
| Manual Hypermarkets | Saudi | 3 hypermarkets | Western region. | Direct importer as well as domestic purchaser. |

*** Additional information on major Saudi food retailers:**

1. Panda Supermarkets chain was established in 1979 and currently has more than 110 supermarkets and 30 hypermarkets outlets Kingdom wide. The firm has plans to increase the number of its outlets to 250 by 2020. In 2007, the company entered international operations by opening its first hypermarket in Dubai. Panda is owned by Savola Group, the leading food products producer and retailer company in Saudi Arabia with business interests in edible oil, sugar, dairy farm, confectioneries, fast food restaurants and packaging.
2. Othaim Markets, one of leading Riyadh based conglomerates, has more than 120 food distribution outlets in major cities of Saudi Arabia. The firm's operates supermarkets, hypermarkets, corner stores and wholesale outlets in major cities across the Kingdom.
3. Farm Supermarkets was established in 1978 in Dammam, Saudi Arabia. Currently, the company

operates a chain of 37 supermarkets concentrated in the Eastern, Western and Southern provinces of Saudi Arabia. Besides, the company owns and operates 13 mini markets serving upscale residential compounds.

4. Al Raya Supermarkets chain was set up in Jeddah in 1992. Since then the retailer has increased the number of its stores to 29 covering seven regions (Jeddah, Najran, Taif, Khamis Mushayt, Baha, Sabya and Jizan.)

5. Bin Dawood Supermarkets chain was founded in Jeddah in 1962 with businesses that include supermarkets, bakeries, restaurants, catering, manufacturing, direct imports and exports. Currently, the firm has 19 supermarkets covering the cities of Jeddah, Makkah and Medina.

6. Tamimi Markets, which was launched in Riyadh in 1979, is considered the pioneer of the upscale supermarket concept in Saudi Arabia. The firm currently has 14 stores in the Eastern and Central Provinces of Saudi Arabia. Tamimi Markets carries the largest range of American foodstuffs compared to any supermarket in Saudi Arabia.

7. Carrefour Hypermarkets (Saudi Hypermarkets CO) was established in Riyadh in 2004 as a joint-venture between Al-Olayan Group (Saudi company) and the Majid Al-Futtaim Group (U.A.E. company). Currently, the company has 10 hypermarkets in three main cities of Saudi Arabia. Carrefour Saudi Arabia has plans to increase the number of its outlets to 20 by 2016.

8. Danube Supermarket chain was established in Jeddah in 1987. In 2001, the outlet was purchased by Bin Dawood Group of Companies. Currently, Danube has six hypermarkets and five supermarkets (two hypermarkets in Riyadh and the rest in Jeddah). The firm will open its first hypermarket in Al-Khobar early in 2013.

9. Al Sadhan Supermarkets was established in Riyadh in the 1970s. Currently, the firm has 4 hypermarkets and 4 supermarkets in Riyadh. The firm has plans to increase the number of its retail outlets to 18 in the next ten years.

10. Balsharaf Supermarkets is one of subsidiaries of Balsharaf group which was established in 1955 as a small corner store in Mecca. Currently, Balsharaf Supermarkets operates twelve retail outlets and five wholesaler operations in Riyadh. Another company in Balsharaf Group is Balsharaf Importing company. The firm imports and distributes food products to more than 16,000 retailer outlet across Saudi Arabia.

11. Sarawat Supermarkets was established in Jeddah in 1981. Currently, the firm has five supermarkets (3 in Jeddah and one each in the cities of Riyadh and Medina.) The retail chain is owned by Binzager Group, one of the leading Saudi conglomerates engaged in food and non food imports, distribution and production. The firm has several food production joint ventures with well known international companies such as Best Food of U.S. to produce and distribute Mazola brand corn oil and oil based products in Saudi Arabia. Binzager Group is the sole agent for several international brands such as Unilever, Kellogg's, Heinz, Tyson, Hershey, Dunlop and McCain products in Saudi Arabia.

12. Star Hypermarkets was established in 1982 by Abbar and Zainy Group in Jeddah. Currently, the

company has two supermarkets in Jeddah and another one in Yanbu city. Also, the firm runs four commissaries in the Royal Commission of Yanbu.

13. Marhaba Supermarkets was established in Jeddah in 1980. Currently the company operates five stores in Jeddah.

14. Lulu Hypermarket, which entered the Saudi food retail market in 2009, is owned by EMKE Group, Abu Dhabi, United Arab Emirates based company. In June 2012, the company opened its third hypermarket in Riyadh with an area of more than 200,000 sq. ft. of shopping space. Like other hypermarkets in Saudi Arabia, Lulu caters to the growing consumer demands that include all types of food products, garments, electronics and home appliances. Lulu Hypermarket is the most preferred retail chain among the South Asian expatriates community residing in Saudi Arabia. Lulu has plans to open more outlets in major Saudi cities in the next few years.

15. Manual Hypermarket was established in 2010 and currently has three hypermarkets in Jeddah.

C. Convenience Stores

Convenience stores, commonly referred to as bakalahs are found in every Saudi Arabian neighborhood. They have floor size of up to 100 square meters. Bakalahs have limited access to distributors. They deal on a cash basis and purchase most of their stocks from wholesalers except for a few fast moving brands that are delivered by importers. Despite the growing number of modern supermarkets in Saudi Arabia, the food-retailing role of bakalahs continues to be important.

Prices tend to be high but bakalahs maintain an advantage over supermarkets by providing services to shoppers looking to quickly buy a few items. A number of bakalahs have developed a credit system that allows customers to pay at the end of the month. Women in Saudi Arabia are not permitted to drive and depend on bakalahs within walking distance of their homes. Also bakalahs are very important to third country nationals working in the Kingdom who do not own automobiles. Most compounds housing expatriates contain one or more corner grocery stores.

Bakalahs are filled with many consumer-oriented products originating from the United States and most have refrigeration and the capacity to store frozen foods. In addition to corner grocery stores, there are hundreds of ethnic stores in the Kingdom, catering to Indians, Pakistanis, Filipinos, and other Asians. Foods from many parts of the world are found in the Kingdom.

In addition to bakalahs and ethnic stores, the number of gas station mini-marts (Gas-Marts) is increasing markedly. Virtually, all gas stations in the Kingdom have stores ranging from small kiosks to more than 500 square meter convenience stores. The stores are well refrigerated and carry a diverse variety of high-value products.

D. Traditional Markets

Traditional wholesale markets cover a large area and are divided by product category: a fresh fruit and vegetable market; cold storage shops selling meats, cheeses, and poultry; and stores selling a wide range of dry goods. The largest wholesale markets in Riyadh are the Utega Center and Rabwa; each located 15 minutes from downtown.

Wholesalers have store space ranging from 100 to 500 square meters. They are unsophisticated, with only a few having a proactive sales force. They sell in bulk to institutional customers, caterers, bakalahs and large families. A few of the large wholesalers do stock comprehensive ranges. They offer some credit facilities to selected institutional customers and retailers. A limited number of large wholesalers account for most of the total wholesale trade.

SECTION III. COMPETITION

Local Food Processing Sector

Food manufacturing in Saudi Arabia is expanding rapidly. The Saudi government assists this sector by providing attractive financing and subsidies on selected equipment and by imposing higher import tariffs on certain imports that compete with locally produced goods (poultry meat, table eggs, infant foods derived from milk, sugar, macaroni and similar products). Locally produced food products also have an advantage over imported food products because they can be exported duty-free to any country within the GCC. Hence, the market for locally manufactured products consists of the entire Arabian Peninsula, including Yemen. The expanded market has prompted many international companies to establish licensing agreements with local manufacturers in Saudi Arabia to produce their brand. Such companies include Kraft/General Foods, Delmonte, Frito-Lay, and Nestle.

The vast majority of consumer-ready food items sold in Saudi supermarkets, however, are imported. Most locally made food products are made with imported ingredients. Sunbullah, for example, imports blocks of frozen vegetables and repackages into smaller consumer-size containers for sale in Saudi retail outlets.

SECTION IV. BEST MARKET PROSPECTS

Products Present in the Market with Good Sales Potential

Most Saudi importers buy for mass distribution and employ consolidators. Consolidators' source products from wholesalers, apply bilingual stickers, and arrange mixed containers for shipment to Saudi Arabia. Consolidators often recommend new-to-market products to Saudi Arabian importers. Given the affinity for new products by both Saudis and expatriates living in Saudi Arabia, Saudi importers and supermarket executives are constantly searching for new food items to introduce. Popular product categories include prepared fruits and vegetables, beverages, beef, whole poultry, poultry parts, snack foods, candy, honey, sauces, mayonnaise, cereals, bakery products, condiments, jams and jellies, peanut butter, salad dressings, gravies, desserts, sunflower seeds, chips, dried beans, peas, soups, diet foods, organic foods, seasonings, and almonds.

Demand for dietary and health foods is increasing in the Kingdom as Saudis become increasingly health conscious. Saudi Arabia's population has one of the highest rates of diabetes in the world, and obesity is widespread.

Banned Products

For religious reasons, Saudi Arabia bans imports of alcoholic beverages, live swine, pork, and foodstuff ingredients or additives that contain pork products, including pork fat, lard and gelatin.

Other banned products include donkey and mule meat, frog legs, poppy seeds, hemp seeds, hops and swine leather.

SECTION V. POST CONTACT

1. Post Coordinates

Office of Agricultural Affairs
American Embassy
P.O. Box 94309, Riyadh 11693
Tel: 966-1-488-3800 Ext. 4351
Fax: 966-1-482-4364
Internet E-Mail Address: Agriyadh@fas.usda.gov

2. OAA Riyadh Reports

Several OAA Riyadh issued reports on the Saudi food industry can be obtained by visiting FAS website at the below link: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems>.