Opportunity for Logistics and Supply Chain Services in Saudi Arabia
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Market Definition

Large full service players in the logistics services market are present across the value chain

Third Party Logistics Industry Value Chain

A. Industry Value Chain

1. WAREHOUSING
2. PACKAGING/ LABELLING
3. TRANSPORT

B. Advantage for Operating Across the Value Chain

1. Players Present Across the Value Chain
   These are companies that offer full-service solutions for their clients (transport, warehousing and packaging)

2. Require Greater Investment by Clients
   Complex logistics services take longer to implement and require capital investments from both client and vendor

3. Switching Vendors Becomes Tough
   By increasing the level of client engagement, cost of switching a logistics vendor goes up significantly for the client

4. Higher Bargaining Power Over Time
   Therefore, compared to a standardized forwarding service, a full service logistics company is able to increase barriers to entry and exit
Market Definition

The logistics services market can be categorized across a wide range of players based on services, asset size and risk.

**Market Player Categories** (1/2)

1. **Third Party Logistics Service Providers**
   - These players engage in medium to long-term contractual relationships with clients, typically ranging between 3-5 years.
   - They typically offer a variety of supply chain services such as warehousing, packaging, labeling, transportation, quality control, etc.
   - **Asset Base:** High
   - **Risk Exposure:** Mid to High

2. **Transport Services**
   - Asset-based business models providing transportation of unit load or bulk goods.
   - Services are offered by truck/train as part or full load.
   - They are typically asset-intensive businesses.
   - The highly commoditized road transportation being particularly fragmented and competitive.
   - **Asset Base:** High
   - **Risk Exposure:** Medium

3. **Courier Express Parcel (CEP)**
   - Parcel services concentrate on transportation of widely standardized lightweight packages (usually less than 30kg) from door to door.
   - The weight limit ensures that a single person can pick up and deliver the parcel.
   - Full control of the transportation network is often a prerequisite for providing high-quality service and realizing full-scale effects.
   - **Asset Base:** Mid to High
   - **Risk Exposure:** Low to Mid
Many logistics’ players have evolved into large global supply chain companies, the market however remains fragmented.

Logistics players have enhanced their reach and complexity of service:

- Many road freight operators providing commoditized point-to-point delivery services on a local or national basis evolved into more value-adding and sophisticated third party logistics services.
- Freight forwarders combined their international scope with the high-end services of third party logistics to move into the ‘Global Supply Chain Solutions’ quadrant.
- Third party logistics providers by means of organic growth or M&A included additional value-added services to their portfolio of offerings.

Highly fragmented industry:

- DHL Supply Chain with a global market share of xx% is the market leader.
- Together with the rest of the top 10 players, they collectively account for just xx% of the total third party logistics market.
Saudi Arabia has a healthy economy with sound growth rate, low inflation, inexpensive labor and positive industrial outlook

Key Macro Economic Parameters

GDP by Sector

- Agriculture: yy%
- Industry: zz%
- Services: xx%

GDP (current US$): USD 748.5 billion (2013)
GDP Growth Rate (2013): x%
Inflation: xx%

Labor Force by Sector

- Labor Force: ~ xx million
- Unemployment: xx%

About xx% of the labour force is non-national

Major Industrial & Urban Centers of Saudi Arabia

- Medina: Pop: 1.2mn
- Jeddah: Pop: 3.4mn
- Riyadh: Pop: 5.7mn
- Al Khobar: Pop: 941,358
- Dammam: Pop: 744,321
- Jubail: Pop: 222,544

Saudi Arabia is the largest economy in the MENA region

- It has evolved from an underdeveloped desert kingdom to one of the wealthiest nations in the GCC region over a short period of time and has attracted global business interests from across industries
- It is centrally located between Europe and Asia and is home to wealthy consumers and inexpensive expatriate labor
- Saudi Arabia has large foreign reserves built over the past years, while reducing public debt to nearly zero
- Despite the declining global oil prices Saudi Arabia is expected to remain attractive to logistics providers
The logistics & warehousing market in Saudi Arabia is forecasted to have a steady growth rate beyond 2015.

Logistics & Warehousing Market in Saudi Arabia

Saudi Market Growth Forecast

- The transport and logistics market in Saudi Arabia encompassing road transport, air/sea freight, freight forwarding and warehousing grew at over xx% during 2008-12.
- The Saudi market is expected to be worth ~USD XX billion by the end of 2015 and is forecasted to grow at a relatively slower pace of ~x%.
- The market will be driven by four key factors:
  - **Economic Growth**
    Despite the decline in global oil prices, the Saudi economy is expected to grow at over xx% y-o-y during 2014 till 2020.
  - **Relatively Lower Logistics Outsourcing**
    The GCC/ MENA region currently has much lower levels of logistics outsourcing, compared to the global benchmarks. Going forward this is expected to pick up and 3PL service providers will drive the sector.
  - **Establishment of Regional Logistics & Warehousing Hubs**
    Saudi Arabia and the larger GCC region are witnessing a slew of new logistics hubs.
Demand for new generation (built-to-suit) warehouses that can handle complex supply chains, will rise in Riyadh

Riyadh: Warehousing Market Outlook

**Major Warehousing Hub**
- Riyadh is the most populous city in Saudi Arabia. It has the highest GDP in the Kingdom and houses most of the large businesses in the country.
- These factors have promoted investment in warehouses and supporting logistics facilities in Riyadh.
- Majority of the city’s supply of warehouses is concentrated near the industrial hubs of First and Second Industrial City and logistics corridors of the Eastern and Southern Ring Road Network.

**Type of Warehouses**
- Riyadh’s warehouse supply mainly features conventional warehouses such as dry-storage, open yard and cold-storage.
- New-generation logistics facilities and fully-integrated distribution centres are limited.
- Most of Riyadh’s warehouse projects are developed by small-scale developers and individual investors.

**Major Demand Sectors**
- Currently, retailers, distributors, automotive/spare parts dealers and construction material companies account for the largest share of demand for warehouses in Riyadh.
- Strong demand is anticipated for fully fledged integrated distribution centres that include logistics’ facilities, cold-storage, dry storage, and supporting retail facilities.
- Demand for new-generation logistics facilities (Built-to-Suit) is expected to rise with the emergence of 3PL companies that handle stock distribution for companies with large and sophisticated supply chains.

**Industrial Hubs and Warehouse Districts**

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<tr>
<td>1</td>
<td>As-Sulay</td>
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<tr>
<td>2</td>
<td>An-Nur</td>
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<tr>
<td>3</td>
<td>Al-Faisaliah</td>
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<tr>
<td>4</td>
<td>First Industrial City</td>
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<tr>
<td>5</td>
<td>Al-Kharj</td>
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<tr>
<td>6</td>
<td>Al-Masani</td>
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<tr>
<td>7</td>
<td>Al-Shifa</td>
</tr>
<tr>
<td>8</td>
<td>Second Industrial City</td>
</tr>
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**Supply of Warehousing Facilities in Riyadh (Million Sq.M)**

- New Additions
- Existing Supply
Key Trends & Outlook

Historically, Saudi Arabia has not been a very efficient logistics market in the GCC region; it ranks a distant 3rd

Saudi Arabia’s Logistics Market Competitiveness

- Bahrain
- Kuwait
- Oman
- Qatar
- Saudi Arabia
- United Arab Emirates

- CUSTOMS: Efficiency of customs and border management clearance
- INFRASTRUCTURE: Quality of trade and transport infrastructure
- ARRANGING SHIPMENTS: Ease of arranging competitively priced shipments
- SERVICE QUALITY: Competence and quality of logistics services—trucking, forwarding, and customs brokerage
- TRACKING & TRACING: Ability to track and trace consignments
- TIMELINES: Frequency with which shipments reach consignees within scheduled or expected delivery times

The Logistics Performance Index reflects the aggregate performance score of the logistics sector based on the following parameters:

- In the GCC region, Saudi Arabia ranks third in terms of the overall competitiveness of its logistics sector
- However, Saudi Arabia has a long way to go when compared to the leading markets in this region

Saudi Arabia is Significantly Behind the Leading Regional Logistics Markets
Key Trends & Outlook

Saudi Arabia has improved its infrastructure but compared to UAE it continues to lag in terms of service quality

Logistics Performance of the GCC Region

- **Customs**
- **Infrastructure**
- **Arranging Shipments**
- **Service Quality**
- **Tracking & Tracing**
- **Timeliness**

![Graphs showing logistics performance metrics for different GCC countries](chart)
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   Logistics & Warehousing Operations of Industries
   Telecom Industry
   IT Industry
   Pharmaceuticals Industry
   Power Generation/ Utilities & Automation Industry

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## Logistics & Warehousing Operations of Industries

### Telecom Cos. tend to outsource warehousing operations and they have service requirements that are currently unmet

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Trend</th>
<th>End Market Positioning</th>
<th>Trend</th>
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</thead>
<tbody>
<tr>
<td>Percentage of revenue spent on warehousing &amp; logistics</td>
<td>0%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>How is warehousing managed</td>
<td>In-House</td>
<td>Outsourced</td>
<td></td>
</tr>
<tr>
<td>How is logistics managed</td>
<td>In-House</td>
<td>Outsourced</td>
<td></td>
</tr>
<tr>
<td>Number of 3rd party vendors used for warehousing</td>
<td>Single</td>
<td>Multiple</td>
<td></td>
</tr>
<tr>
<td>Number of 3rd party vendors used for logistics</td>
<td>Single</td>
<td>Multiple</td>
<td></td>
</tr>
<tr>
<td>Duration of a 3rd party vendor contract</td>
<td>1 Month</td>
<td>12 Months</td>
<td></td>
</tr>
<tr>
<td>Tenure of a 3rd party vendor contract</td>
<td>1 Year</td>
<td>30 Years</td>
<td></td>
</tr>
<tr>
<td>Overall satisfaction level with the vendor</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Unmet logistics and warehousing needs</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Openness to changing existing vendor</td>
<td>Unlikely</td>
<td>Likely</td>
<td></td>
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</tbody>
</table>

### Industries

- **TELECOM**
- **UTILITIES/AUTOMATION**
- **PHARMACEUTICALS**
Saudi Telecom Industry: Outlook

- Saudi Arabia is the largest telecommunication market in the Middle East, consistently representing ~xx% of the total market share since 2008.

- In 2014, total mobile and fixed line telecom service revenue in the country reached SAR XX billion, a decline of x%, primarily due to increased spending by telecom operators on promotional activity, and reduced tariffs.

- The industry is expected to record an average annual growth of x% over the next 5 years to reach SAR XX billion by 2019, requiring substantial investments by operators for upgrading network infrastructure to handle the increasing data traffic.

- Saudi Telecom Company (STC), Mobily and Zain are the market leaders in the Saudi mobile market, with STC capturing the highest market share (XX%) of the total mobile subscribers in 2013.

- In 2014, total mobile subscriptions reached XX million, with penetration rate of xx%. At the same time, total fixed telephone subscriptions reached XX million with a tele-density of around xx%.

- The industry is expected to witness a host of developments with Mobile Virtual Network Operators (MVNOs) such as Virgin Mobile and Lebara entering the Saudi telecommunications industry.
**Telecom Industry**

**Government spending and rising data usage will drive growth but lower tariffs and a saturated market are major inhibitors**

**Saudi Telecom Industry: Key Market Determinants**

### Drivers
- Government regulations to create a competitive environment and plans to develop smart cities is expected to drive the Saudi telecom market.
- MVNOs entering the Saudi telecom market are also expected to drive growth in the average revenue per user, with their new promotions for voice and data services.
- Rising smart phone usage and data consumption, primarily among young population will be a major engine of growth for the Saudi telecom industry. This demographic segment accounts for xx% of the total data consumed.

### Challenges
- Reduction in data prices has led to decline in industry revenue, thus inhibiting overall market growth.
- Despite tighter industry regulations in Saudi Arabia, increasing popularity of data services over voice has led to decline in total revenue of telecom operators.
- Declining subscriber base due to crackdown on illegal immigration has resulted in declining number of mobile subscriptions (by ~xx%) in recent years.
- With high penetration rates (Saudi Arabian telecom market is closing towards saturation) growth estimates for the overall telecom market is down to low single digits.

### Investments
- Mobily, one of the leading players in the country plans to invest SAR XX billion during 2013-18, primarily in network and product development. A significant share of these investments would be used to develop high speed data networks.
- Overall spending in ICT sector in Saudi Arabia is expected to reach SAR XX billion in 2017. Telecom sector is expected to be the major contributor with spending of ~SAR XX billion.
Global Market Evolution

Typical Usage
- Telecom companies currently utilize warehouses for storing a wide range of communication equipment such as modules, connectors, cables, oils, mobile phones etc..
- In order to meet product specific storage needs, warehouses have different structural designs, cleaning and maintenance processes, and could be categorized as:
  - Rack design for communication goods in boxes and pallets
  - Stage design for RF goods. At times such warehouses are also used as workshops, resulting in lower efficiency levels

Vendor Engagement
- Logistics vendors for telecom clients are primarily responsible for transporting goods from the customs, sea, airport to the warehouses.
- Based on their requirements, telecom companies usually tie-up with both local and international logistics providers.
- Telecom companies usually tie-up with multiple third party vendors for their warehousing requirements.

In House Logistics Management
- Telecom companies also deploy their own teams to transport communication goods from warehouses to project sites.
- For this, they use their own fleet and rented trucks. However, this system is not very well organized.

Fragmented Global Market

High Initial Investment
- Warehousing projects involve high initial cost in the form of warehouse rent, machines, warehouse management systems, racks, facilities etc.
- Telecom companies strive to bring down this initial cost by evaluating different warehouse locations and their rents.

Cost Basis
- Warehousing costs are determined on the basis of square meters of space occupied, which can be either booked in advance or charged on an real time usage basis.
- Cost also includes handling costs of labour for stacking and storing of goods in the warehouse.
- Logistics costs are determined on the basis of inbound and outbound transportation. Based on weight of the shipment and the season, transportation costs vary from SAR XX-XX per shipment, which also includes expedited cost.

Expenditure by Telecom Cos.
- Large telecom companies usually end up spending ~SAR XX million on the lower side to about SAR XX million on the higher side, annually on logistics and warehousing.
- This includes spend on salaries and annual maintenance contract of the machines, which is ~xx% of machine’s cost.
- The cost varies marginally across projects
Vendor Selection

Selection Process

- Some of the key factors for a 3rd party logistics provider’s selection, have been mentioned below. These factors have been ordered as per their importance for a telecom company:
  - Service Quality
  - Cost
  - Capability
  - Relevant Industry Experience
  - Service Network
  - Referrals
- Process of selecting a new vendor is not very long, and takes somewhere between 2 weeks to 3 months.
- However, switching the vendor entirely may take significant time

Engagement Period

- Typically telecom companies have yearly contracts with vendors, which are renewed annually.
- In case there are no major issues related to service quality, the engagements run over much longer period.

End Market Satisfaction Level

Overall Satisfaction

- Some of the leading telecom companies operating in Saudi Arabia appear to be satisfied with the overall service levels of the third party logistics vendors.

Pain Points & Unmet Needs

- Some of the telecom companies have faced issues around delivery timelines, weak internal management and damage to goods during transition.
- There is also an unmet need for warranty/guarantee of products to ensure safety from damage in transition, fire, accidents etc.
- Telecom operators believe that a self-supporting process for all logistics operations would be more helpful as it would save cost and provide greater control over the processes.
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   - Market Entry Options
   - Key Success Factors for New Business
   - Potential Return on Investment
Based on the end objective of investing in the logistics & warehousing market, the investors have the following options

**Entry Options Based on Short Term/ Long Term Goals**

1. **Acquiring an Established Business Unit**
   - **Option Attractiveness**
     - Number of market players that have the required infrastructure, existing client base, technical knowhow, sector specialization and an established name
     - Some players could potentially have growth and expansion plans ready but are looking for investments
   - **Challenges**
     - Identifying a potential target and conducting due diligence to understand the value of the business and identify potential pitfalls

2. **Setting Up a New Business Unit**
   - **Option Attractiveness**
     - Starting a new Logistics & Warehousing business would be less expensive than buying an existing business.
     - A new start up will not have any legacy issues and create a niche of its own, in terms of service capability
   - **Challenges**
     - Getting space (land) for warehouses, buying transport vehicles, hiring skilled manpower, getting the relevant licenses, acquiring clients and cash flow cycles are just some of the challenges that a business would have to face and resolve
A new business must register before starting operations. The registration process takes a little over 3 business weeks

Entry Options: Acquiring an Established Business

**Document Submission**
- Required documents that need to be submitted with the Unified Center include:
  - Articles of Association (AOA), in line with a standard template provided by the UC
  - The AOA must also be submitted in a soft copy on a CD (in practice)

  **DURATION:** 1 Day

**Company Name Registration**
- The name reservation is valid for 2 months and can be done online through the website of the Ministry of Commerce and Industry

  **DURATION:** Less than 1 Day

**Registration Fee**
- The registration fee can be paid at the Bank window within the same building of the Unified Center

  **DURATION:** 1 Day

**Bank Account**
- Business owners need to open a company bank account at a bank of choice.

  **DURATION:** 4 Days

**Submit Approved Documentation**
- Submit the approved documentation, certificate of deposit and the articles of association at the Unified Center, together with 2 applications and one undertaking

  **DURATION:** 2 Days

**Notarize AOA**
- The notary public reviews all the documents to make sure they are complete. Currently, the notary public reviews up to 15 companies per day. It is located within the Unified Center building

  **DURATION:** 1 Week

**Chamber of Commerce Membership**
- Pay the Chamber of Commerce membership fee at the Unified Center

  **DURATION:** 1 Day

**Register with GOSI & Zakat**
- Business owners must register for social security insurance and open a file with the General Organization for Social Insurance (GOSI). This will register the employer and the employee with the Pension Fund and the Industrial and illness Fund (Occupational Hazards Fund).
- Registration with the Department of Zakat is required. Zakat is a religious wealth tax and is assessed based on taxable income and certain assets.

  **DURATION:** 3 Days
Profit margins can increase in tandem with the complexity and level of sophistication of the logistics service.

However, even basic road transport services yield operating margins of approximately x% to xx% in the Middle East region, which is significantly higher than in mature markets such as the European Union where margins are typically about x% to x%.

Freight forwarding, which requires more sophisticated capabilities, typically yields a margin of x% to xx% in the Middle East and North Africa (MENA) region.

Finally, warehousing and contract logistics services offer margins of around x% or even x% in the case of comprehensive supply chain solutions.

**Investment Attractiveness**

The overall logistics and warehousing market in Saudi Arabia has a positive outlook, with growth rate forecasted to be in the x% - x% range in the mid to long term. The select end markets that have been analyzed in this study are also forecasted to have mid single digit growth rates. These two factors put together make strong positive case for investing in the Saudi Logistics and Warehousing market.
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