



Research Article

Emerging Industry: A Case of Automobile Manufacturing in Saudi Arabia

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Abstract

Automobile manufacturing industry in Saudi Arabia offers a very good potential for investors. Domestic demand for cars is on zenith due to the non-availability of other modes of transportation. The consumer driving forces are high purchasing power, segmented markets, growing middle class, education and roads infrastructure. The government has an investor friendly policy framework for automobile and spares manufacturing. Since automobile manufacturing is in its nascent stages, Saudi Arabian entry is a red carpet with 100% FDI, no other tax except 20% corporate tax, important materials available locally, well developed dealer system and easy accessible regional markets. Adversely, investors should be ready to deal with inflation, which can hover around 3.5% till 2020, very tough local automobile selling turf and probable competition from other modes of transportation in the long run.

Keywords: Automobile industry, automobile manufacturing, automobile market opportunities, challenges, entry strategies, automobile consumer.

Introduction

Saudi Arabia offers plethora of manufacturing opportunities to automobile companies from across globe. Automobile (refer to note 1) manufacturing will push Saudi Arabia's ambition of diversifying its economy, empower youth with employment opportunities approximating to one hundred thousands, contribution to GDP and boosting make-in Saudi Arabia tag (U.S.-Saudi Arabian Business Council, 2013).

According to U.S.-Saudi Arabian Business Council (2013) with the current trends, couple of international auto-manufacturers had recognized opportunities offered by the Saudi automobile market. The government initiated several plans to boost the automobile industry and assured investor friendly policy. Dr. Tawfiq Al-Rabiah, Minister of Commerce and Industry had narrated that "a policy framework will be coined to remove all obstacles facing serious industrialists and investors who

want to establish value added industries in the country, also added policy to achieve quality and innovative designs matching with world standards”.

Industrial Clusters (2014) reveal that there are several aspects which direct Saudi Arabia to be an investment destination for automobiles in specific and other areas in general. Automobile industry regionally has six countries: Saudi Arabia, United Arab Emirates, Oman, Qatar, Kuwait and Bahrain which can be clustered into one homogeneous group based on geographical conditions, tariff free agreements and cultural similarities. These six countries had an import potential of more than one million cars per annum advocating the need for local production. Extension to these six countries, Middle East and North Africa (MENA) is four hundred million plus potential automobile consumer market which can be targeted with cars and spares manufactured in Saudi Arabia.

Opportunities

Autocare Association (2014) in its report mentioned that, Saudi Arabia registered four percent import growth annually in automobiles which is considered to be the largest in the regional market. Being Saudi Arabia largest importer of cars in the gulf region, naturally automobile imports comes first on its list. Saudi Industrial Development Fund (SIDF) had mentioned that during the year 2012 the total import of cars was positioned at close to one million with an average of approximately seven hundred between years 2005 and 2012. Similar data were published by Arab News (2014)² - saying among total imports, car alone accounts a big chunk of 14.9%.

Lack of public transportation leads every commuter to own a car including families. U.S.-Saudi Arabian Business Council (2013) states the supporting factors for consistent demand for cars are- 3.7% population growth per annum and more than 81% percent of population is below thirty years of age. Another report from Saudi Arabian General Investment Authority (2015)² says that people have high purchasing power leading to continuous expansion of market. 50% of the population in Saudi Arabia is represented by women. If women are allowed to drive, they can be a huge future potential.

Saudi Arabia enjoys a strategic location on the world map (See Image 1: Saudi Arabia's strategic location). According to Industrial Clusters (2014), Saudi Arabia is located at the centripetal point between three continents namely Asia, Africa and Europe which gives it a strategic advantage of being a significant trading hub. Therefore, it is considered to be a major automobile and automobile spare parts re-export hub in the region. Saudi Arabia's automobile re-exports reached around six billion Saudi Riyals during the year 2012, with an AGR of 13% for the period between 2005 and 2012. Aside from its high demand, Saudi Arabia can be the gate to many neighboring potential markets, according to SIDF report (www.arabnews, 2014²).



Image1: Saudi Arabia's Strategic Location

Source: www.google.com, 2016

Saudi Arabia's huge investments in the development of the Kingdom's civil infrastructure including roads and highways are of great support to the automobile industry. These investments are stimulated by the Kingdom's geographical factors such as total area of 2,149,690 square kilometers, big size of the major cities, the desert climate that is characterized by being extremely hot in the summer and very cold in the winter makes it difficult to travel long distances using other transportation means (Saudi Tourism, 2016). The absence of domestic automobile production in Saudi Arabia until today is a standalone big opportunity by itself for international automobile manufacturers to enter, penetrate and benefit from this highly growing competitive market.

Entry Strategy

A report by Samba Financial Group (2006) details that in complying with WTO agreement, Saudi Arabia now allows international businesses 100% ownership in the Kingdom. The Kingdom offers the opportunity to operate with no personal income tax, value-added tax, sales tax, land tax and property tax. This is a big move by the Saudi government toward elevating the automobile industry in the Kingdom. Some international automobile manufacturers choose to enter the Saudi market through

dealership or a commercial agent. Local agents are more familiar with the market, its demand, and have strong long term relationships with various channels in the region. This can help in facilitating and supporting the business operations and transactions in a more effective and efficient way. The process starts with choosing the right agent who owns a license and is registered with the Ministry of Commerce and Industry and develops an agreement between both ends. This agreement covers all aspects of business relationship, including roles and responsibilities of both parties and business operations. For example, it mentions whether the agent will be only responsible for selling the cars, providing after sale services, buying from the manufacturer and reselling, or selling for the manufacturer and receiving a commission. The agreement must be comprehensive to avoid any future conflicts and must be approved by the Saudi Ministry of Commerce. Until today, this is the option chosen by international automobile manufacturers operating in the Kingdom of Saudi Arabia.

International automobile manufacturers such as Tata, Jaguar, Land Rover and Isuzu subsidiaries are considering establishing assembly plants in the Kingdom. Yet, in the automobile industry, for the business to start generating profit, it must reach mass

production levels. The possible failure to acquire economies of scale in the Saudi market may be the reason behind the hesitancy of opening up production plants in Saudi Arabia. Though, this problem can be addressed in several ways,- one way could be in focusing on certain types or models to produce depending on the local demand, rather than offering all products offered at the home country. Another way can be using Saudi Arabia as an export point to the region. In its annual report, Saudi Industrial Development Fund (2014) mentioned that Ras Al Khair is known as the “Minerals Industrial City” and is located just at the center of the GCC countries. It can be used as an export port to all neighboring potential markets.

Some of the Leading automobile dealers in Saudi Arabia

Abdulatif Al Issa Automotive Company Nissan- : It is the first and biggest company of Abdulatif Al Issa Holding, established in 1950's by Sheikh Abdullatif Alissa who started by importing and selling automobiles to Saudi Aramco Company. Today, Alissa Auto is Nissan's exclusive distributor in the Kingdom of Saudi Arabia (dealer). With over 60 years of experience in the automotive sector, Alissa Auto offers cars, spare parts and after sales services to Nissan customers in the Kingdom. Its mission is to provide the best automotive products and services of the highest quality at a value that exceeds customer's expectations and for employees, customers, suppliers, shareholders and society to share the success (www.nissan-alissa.com).

Abdul Latif Jameel Motors Toyota- : It started business in 1945. Long before the development of the Kingdom's roads and highways, Abdul Latif Jameel recognized the benefits of introducing 4X4 vehicles to ease the transportation of the people of Saudi Arabia. With their first order of “BJ” model 4X4, Abdul Latif Jameel started a strong long term relationship with Toyota Motor Cooperation. Today, Abdul Latif Jameel is Toyota's exclusive distributor in the Kingdom of Saudi Arabia (dealer). It offers car sales, spare parts and after sale services through its distribution network and outlets located across the Kingdom of

Saudi Arabia, “sourcing and servicing over 1.2 million vehicles annually” (www.toyota.com.sa).

Al Jazirah Vehicles Agencies Company Ltd Ford and Lincoln- : Ford was first introduced in Saudi Arabia when the U.S President gave it as a gift to the late King Abdul Aziz in the 1940's. Ford became popular in the Kingdom and was used by Aramco. At its start in 1987, Al Jazirah Vehicles' main office was simply a tent standing on a yard used to store the cars. Employees were less than 10. Today in the automotive sector, Al Jazirah has grown to operate 203 sales points across the Kingdom with 24 show rooms, 48 maintenance workshops, 60 spare parts centers, four integrated central warehouses and 73 maintenance centers to serve car rental clients. Its workforce exceeds 4200 trained qualified staff to serve customers professionally. Its after sale services include “Mobile maintenance” - where technical teams serve customers anywhere. “Quick Service”- is assigned to “special division to handle government and corporate orders”. It established a call center to maintain communications with its customers in order to increase their satisfaction”, and initiated an “Operational Renting Program giving the major customers the right to rent vehicles for long-term or short-term contracts with guaranteed maintenance services”. (www.aljazirahvehicles.com).

Wallan Establishment Hyundai- : It was founded in 1975, started with a fleet of trucks and tankers providing water and fuel to several construction sites during 1970's and 80's when the region was going through a speedy development of infrastructure. In 1984, it became a distributor of Hyundai Motors in the central region, providing cars, spare parts and after sales services to Hyundai customers. In addition to being Cessna aircraft authorized agent, the group has many other activities, such as - car rental operations, real estate development, Wallan transport, Falcon Express and travel agency. Its head office is located in Riyadh; has five showrooms in several areas of Riyadh providing easy access to Hyundai's customers. Wallan

Establishment owns Buraida's, Hail's, Majma's and Al Rass's showrooms that are located around 600 Kilometers away from Riyadh (www.wallanhyundai.com).

Juffali Automotive Co. (JACO) Mercedes-Benz- : It had been Mercedes-Benz's exclusive distributor in the Kingdom of Saudi Arabia (dealer) since 1950's. For over 50 years, JACO is known to be the largest Mercedes-Benz Distributor in the Middle East, with showrooms in Jeddah, Riyadh, Dammam and Asir. They provide services to many customers with parts and service technicians readily available for the customers not only in the major cities, but in most remote areas ensuring its customers' continuous satisfaction. Its online vehicle management system adds a lot to the company's reputation and good will (www.mercedesbenzme.com).

Al Jomaih Automotive GMC and Cadillac- : In 1936, two brother's Abdul Aziz and Mohammed Abdullah Al Jomiah started a company in their home town Shagra, 200 kilometers from Riyadh. Their business interests include "sales, distribution, information technology, finance, manufacturing, engineering, real estate, oil, gas, water and electricity". After four years, they decided to relocate and move the business to the capital city Riyadh. In 1967, it became an exclusive dealer of GMC's and Cadillac's in the Kingdom of Saudi Arabia and also a distributor to Chevrolet cars. For over 50 years, Al Jomaih had been selling cars, spare parts and after sale services to its customers. Continuously working on satisfaction and ensuring its excellent reputation to stay at the top (www.aljomaihauto.com).

Haji Husein Alireza & Co. Ltd. Mazda and Geely- : Haji Husein Alireza & Co. Ltd. represents some of the world's leading automobile and truck manufacturers in the world, such as Aston Martin, Mazda, Peugeot, Geely, Maxus, Yuejin and MAN Trucks. It was established in 1906 as a trading company in food, building materials and jewelry. It started importing and distributing automobiles on a commercial basis in Saudi Arabia in 1926, and was the first in the Kingdom. Throughout the years, the business has

been relatively diversified, yet automobileremained the major area of the company's business. It provides its customers with cars, spare parts and after sale services and is considered one of the Kingdom's leading businesses in the private sector. They also distribute Chinese cars such as Geely and Maxus (www.hha.com.sa).

Abdullah Hashim Company Limited Honda- : For more than 50 years, Abdullah Hashim Company Limited had been the exclusive distributor of all Honda automobiles in the Kingdom of Saudi Arabia, providing the Saudi consumers with high quality products and gaining their trust and satisfaction. Honda's products distributed by Abdullah Hashim include automobiles, motorcycles, generators, water pumps, agricultural machinery, lawn mowers and sprayers. Honda enjoys high reputation in Saudi Arabia that was achieved through advanced technology, high quality and precise manufacturing. This led to long term reliability and durability to meet the high standards set by the Kingdom of Saudi Arabia. Abdullah Hashim Company offers customer services, qualified and trained staff, in addition to the availability of original spare parts through its network (www.honda-saudi Arabia.com).

United Motors Co. Chrysler, Dodge and Jeep- : United Motors Co. was established in 1999. It is the exclusive distributor for Chrysler, Dodge, Jeep, Ram and Mopar products in Saudi Arabia. It deployed more than 1200 trained employees in the company's 63 branches located across the Kingdom. It gained customers satisfaction through its continuous efforts to provide services under the slogan "United to serve you better". In addition to offering cars, spare parts and after sale services, they have opened new express lane service and parts center that facilitates and reduces vehicles repairing hours. Also, it formed a customer care center that is responsible for following up with customers and ensuring the delivery of customer service and satisfaction throughout all operations, starting with the vehicle purchase process to maintain after sale services (www.umc.com.sa).

Roads and Transportation in Saudi Arabia

Saudi Arabia had decided to allocate around \$77 billion in developing the Kingdom's transportation infrastructure through development projects for roads, bridges and rail (Arab News, 2013¹). According to Saudi Arabian General Investment Authority (SAGIA) (2015¹), the Ministry of Transport has developed a National Transport Strategy. (See Table 1: Saudi Arabia's top ten infrastructure projects, The 5 Big Hub (2015). The roads in Saudi Arabia can vary in size from eight

lane highways in major cities to two way small roads in remote areas.

Highways are in excellent condition and were constructed in a way to survive the Kingdom's climate, to resist high temperature and minimize the reflection of sunshine. It is worth mentioning that- Royal Haskoning DHV, a Netherlands company, was given the responsibility of finding considerable traffic hurdles in the capital city of Riyadh and solutions were provided to smoothen the traffic. One such output was improving vehicles capacity per day from 190,000 to 520,000 on the busy King Abdullah road, (World Highways, 2013).

Table 1: Saudi Arabia's top ten infrastructure projects

Project	Description	Budget
Haramain High Speed Rail	A high-speed rail line linking Makkah and Madinah to Jeddah and to King's Abdullah Economic City at Rabigh.	\$11.1bn
Jeddah Metro	A three lines network connecting the city of Jeddah. It will run around 90 Kilometers and will contain more than 30 statins.	\$8.5bn
Riyadh Metro	A six-lines, 85-stations metro network in Riyadh.	\$7-8bn
King Abdulaziz International Airport	A redevelopment project of Jeddah's King Abdulaziz Airport. It will include plans for the world's tallest control tower, a new transport terminus linking to the Haramain High-Speed rail route and a tunnel being built underneath the airport's runway.	\$7.2bn
Saudi Landbridge	A rail line connecting the Red Sea to the Gulf.	\$7bn
Makkah Grand Mosque redevelopment	An expansion project of the main pilgrimage site for Muslims. It will cover the redevelopment of 400,000 m2 as well as new stations for the arrival of passengers from the Haramain High Speed railway. It is expected to increase the mosque's capacity to 2.5 million worshippers.	\$24.4bn
Jabal Omar Development	Project linked to the expansion of Makkah's Grand Mosque which will develop 38 new towers containing hotels and accommodations for millions of pilgrims each year.	\$5.3bn
King Abdullah Port expansion	The Kingdom's newest port on the west coast located in King Abdullah Economic City.	\$2bn
Jubail II	This project will be composed of 100 new industrial plants, 800,000 cubic meter desalination plant, roads and highways, and an oil refinery producing at least 350,000 barrels per day.	\$80bn
Northern Border Security Project	Includes the constructing of high-tech walls along its border with Iraq and southern border with Yemen.	\$1bn

Source: www.thebig5hub.com, 2015

In addition to the continuous developments of inner-city and intra city roads, Saudi Arabia had also exerted efforts in developing highways and roads connecting the Kingdom with its neighboring countries. These include King Fahd Causeway Bridge, the new Saudi-Oman highway and the construction of a five billion dollars bridge linking Saudi Arabia and Egypt. Yet, the last may be delayed due to the current political situations.

Public taxis are available in all cities of Saudi Arabia and considered the most effective transportation in the absence of a private car. They report to the Ministry of Transport and are unified in color. There are pre-booked taxi companies that offer high quality transportation services with premium fares. They offer different models and types of cars that vary from luxury to regular. These can also be used between cities and some offer transportation to/from the Kingdom of Bahrain. Such companies include Majestic, Samara and SAPTCO Limo. In addition, there are "Taxi app" service provider companies like UBER, Easy Taxi, Kareem, Smart Taxi and others. There are several local and international car rental companies like Budget, Avis, Euro Car, Key, Abu Diab and others. They offer all types of cars, from the expensive luxurious to the small affordable ones.

Saudi Arabian Public Transport Company (SAPTCO) operates bus network within the major cities of Saudi Arabia and under the regulations of the Ministry of Transport. Yet, these buses are not well maintained and are used only by very low income citizens and residents who cannot afford having their own private vehicles or a taxi. SAPTCO is a lone competitor for cars. An agreement was signed between SAPTCO and the Ministry of Transport in 1979 (<https://saptco.com.sa>). The company's fleet includes 4,500 vehicles connecting more than 385 cities and villages across the Kingdom. It operates around 800 trips in a regular day and may reach 1000 trips per day in high seasons. In addition, it offers VIP services for high quality long distance trips including non-stop trips, food,

beverages and charging outlets for phones and laptops. In addition, Tatweer Educational Transportation Services Company (TTC) serves the educational sector thorough its fleet of buses providing high quality transport services to educational institutions such as schools and universities (www.tatweertransit.com, 2016).

Challenges

Saudi Arabia's approach toward a diversified economy is with an urge to move in line with the increasingly globalized environment, still few challenges remain. International businesses must understand these challenges beforehand of entry and prepare to counter them efficiently and effectively. Inflation is one of the major aspects that must be taken into consideration when entering the Saudi market. But when compared to other countries in the region, Saudi Arabia had always enjoyed low inflation rates. Al Jazira Capital (2013) in its report mentions, between 1991 and 2000, the Kingdom's inflation rate was 0.9% compared to the GCC's and other developing nations' averages of 2.1% and 4.3% respectively. Yet, during the last 12 years, Saudi's inflation rate grew higher as it reached 3.1% little lesser compared to GCC's average of 3.5%. For the first quarter of the year 2015 it reached its lowest level in nine years reaching 2%, something exceptional. According to the projections of IMF, during 2013-18 the average inflation is expected to hover around 3.6% which is on par with global and far better than (MENA) averaged at 9.5%.

A very important challenge facing international businesses entering the Saudi market is getting familiar with and adapting to the Kingdom's standards and regulations. A long list of several industrial standards and regulations had been issued by the Saudi Standards, Metrology and Quality Organization (SASO). These standards affect the penetration and the continuity of the business in the Saudi market. In regards to the automobile industry, SASO requires a "Certificate of

Conformity” for the import of all automobile and spare parts. Without it, the shipment will be denied entry at the ports of Saudi Arabia (Arab News, 2015²). In addition, SASO has imposed a ban on the import of spare parts that are over five years old. This ban also includes the import of used spare parts, except for reconditioned engines as long as they comply with SASO’s standards. Also, with Saudi Arabia’s approach toward intellectual property protection and anti-counterfeiting, SASO is committed to stop such counterfeit products from entering the Kingdom. Labeling and marking requirements are now mandatory for all spare parts entering Saudi Arabia, marking clearly the products’ country of origin. SASO had issued 42 new trade-related laws, created nine new regulatory bodies, and signed 38 bilateral trade agreements to comply with WTO’s requirements (Samba Financial Group, 2006). International manufacturers and suppliers must understand Saudi’s import requirements and comply with them including the submission of all documentations and certifications required.

Another challenge for international automobile manufacturers is that Saudi Arabia’s automobile market is considered to be very competitive. A large number of international automobile brands are operating in the Saudi market with a tight leg space. For many years, it had been noticed that people in Saudi Arabia showed preference and increased demand for

American cars. This tendency may be explained due to the various models, sizes, and power offered by the US automobile manufacturers (Middle East Car Expert, 2010). For example, people in the past believed that no automobile’s air-conditioning system could compete with the American’s. During the last three decades, Japan and Korea have shown strong penetration of the Saudi automobile market and an increase in the market share exceeding 70% of the automobile sales in Saudi Arabia. (See Figure 1: Automobile leaders’ Market Share in Saudi Arabia for the year 2013). Today, an additional pressure appears with China entering the Saudi automobile market. Chinese automobile attracts consumers with the low prices and depends on creating the perception to be less expensive to maintain. General Manager of sales and marketing, Mr. Husam Al-Hanbali of Haji Husein Alireza & Co, the dealer of Chinese car brand Geely opines that they found an opportunity to launch their brand into Saudi market at very competitive pricing without compromising on quality in comparison to competing brands. The company was confident to achieve a two percent market share with total vehicle sales of 18000 by the end of 2013 financial year (Arab News, 2013³) which they achieved. Competition is definitely a rough terrain, but there is always leg space for new brands which can attract and amaze consumers with innovative and creative designs offering better value.

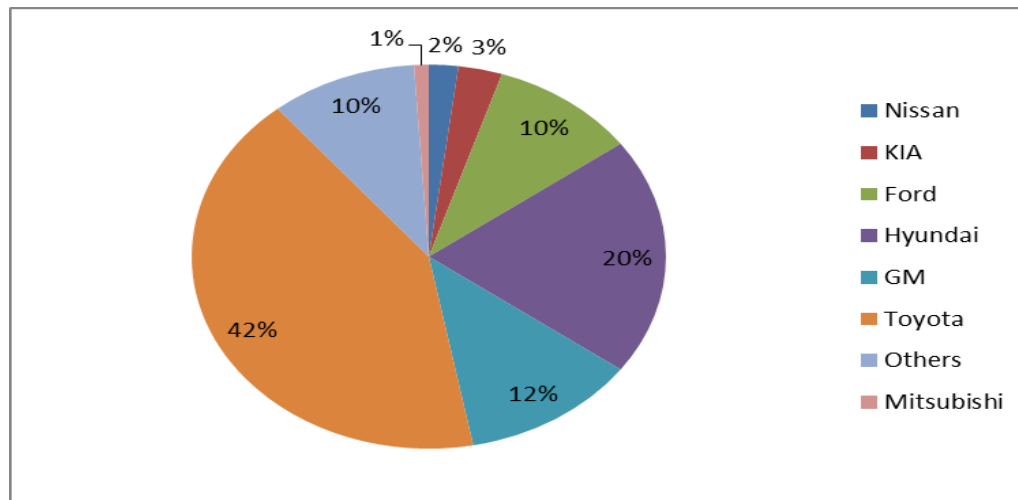


Figure 1: Saudi Arabia's Automobile leaders' Market Share for the year 2013

Source: www.automechanikajeddah.com, 2016

Competition from other modes of transportation also poses a definitive challenge. Due to the Kingdom's size and the long distances between its major cities, it is easier to travel by air. Saudi Arabia has 33 airports linking the Kingdom in which three of them are international. Ongoing metro projects like the one in Riyadh may give automobiles run for money. The Metro project is expected to provide an integrated public transport system that solves the current problem of Riyadh roads being incredibly crowded during all times of the day. The project started in 2014 and is expected to be completed in the year 2018 (Arab News, 2015¹). The Saudi Arabia Railway runs a distance of 570 kilometers from the capital Riyadh to Dammam in the east, passing through Al Kharj, Harad, Hofuf, Abqaiq, and Dhahran. It was established in 1951. Trains are air-conditioned and offer different classes and services. Good news, it is considered to be the least developed means of transportation in Saudi Arabia.

Automobile Market in Saudi Arabia

Regardless of the falling oil prices, Saudi Arabia's automobile sales are still rising with increasing demand. This can be attributed to factors such as automobile financing by banks in providing car loans with low interest rates, low fuel prices,

growing population rates and high local consumption of automobile due to the Kingdom's geographic and demographic characteristics. The Saudi's automobile sector involves two major areas, automobile and spare parts. Today, Saudi Arabia is the largest Middle Eastern importer of automobile and spare parts (U.S.-Saudi Arabian Business Council, 2013). Saudi Arabia has developed a number of local spare parts factories, some truck, bus production and assembly plants with limitations. Yet, the majority of auto spare parts sold in the Kingdom are imported from outside. In its move towards developing the industrial sectors in general, and automobile's in particular, Saudi Arabia is investing massively in creating appropriate environments to embrace and nurture this move.

Vehicles

According to Ward's Auto (2013), Saudi Arabia was "estimated to have four million passenger vehicles and 2.1 million commercial vehicles on road in 2015". Other statistics show that around 50% of them are over five years and 22% are over ten years old. The fast moving passenger vehicles in Saudi Arabia are Camry, Yaris, Corolla and Hilux from Toyota range between \$10000 to 18000; Elantra and Accent from Hyundai motors range

between \$10000 to 15000; Yukon and Tahoe from General Motors' range around \$45000 and Expedition, Taurus, and Explorer from Ford's motors range between \$25000 to 40000. It is very obvious that the Japanese automobile manufacturers are the dominant in the Saudi automotive market, followed by the Korean, American and then come the European. In 2014, it was reported that Toyota's market share breached 40% and that more than 50% "on road cars" in the Kingdom are produced by Toyota (Arab News, 2014¹). While, "Maintaining its position as the second biggest car brand in the Kingdom", Hyundai is commanding market share at 21% (Saudi Gazette, 2016). With the 4% yearly growth in the number of vehicles imported to the Kingdom of Saudi Arabia, annual sales are expected to hit one million by the end of 2020. This growth will include all passenger cars segments, from the fancy luxurious cars to the smaller and just affordable cars. Moreover, this growth is expected to be much more for the commercial vehicles due to the enormous number of infrastructure projects taking place in the Kingdom today.

Spare Parts

Japan with 23% spare parts export to Saudi Arabia stands on the top. The second, third and fourth spots are taken by Germany, China, South Korea and the United States at 9% is the fifth. Due to the Kingdom's climate, tires and batteries and other spare parts worn out at a quick rate increasing the chances of faster replacement. Cheaper tires imported from China take major share of imported tires. High customer awareness in Saudi market for safety and security paved the way for upmarket tire brands like Bridgestone, Michelin, Continental and Goodyear. These brands are steadily moving up in the premium quality market. Automotive Fleet (2014) mentions that for the years 2014-19 it is

forecasted that Saudi Arabia will register a value growth of CAGR of 17.19% in tire sector. This growth is due to the rise in automobile sales over the years or/and the increase in the investments put into the automobile sector in the Kingdom as a result of the supportive and encouraging government policies. Increased demand for automobiles helped Saudi Arabia to establish domestic production for radiators, batteries, filters, lubricants, hydraulic oils, exhaust systems and converters. Additionally, Saudi Arabia invested in supporting manufacturing sectors as aluminum, steel, copper, and other alloys to build the backwards integrated system. This initiative will provide materials at lower cost with acceptable lead times improving the supply side effectiveness (See Table 2: Auto parts Manufacturers in Saudi Arabia). This shows the Kingdom's approach towards creating a competitive advantage in the local manufacturing of automobile spare parts.

Automobile Consumer Behaviour

In the absence of other modes of public transportation in Saudi Arabia, buying a car is simply to serve the basic need as a means of transportation and mobility. It is needed to commute from home, to work, schools, grocery store, shopping mall, hospital and also addressing a specific behavior or lifestyle. For example, a big Saudi family may have several cars serving each member individually and also may own a secondary big sized car for group trips. The majority of car owners in Saudi Arabia prefer sedans which are affordable. Niche segments with high disposable income and social image conscious are targeted by expensive luxurious car brands as Lexus, BMW, Mercedes, Jaguar, Rolls Royce and others. Consumer preferences in this segment are frequent change of cars, adopt latest trends, seek distinction and uniqueness and obviously are willing to pay premium price.

Table 2: Auto parts Manufacturers in Saudi Arabia – (adopted and modified)

#	Company Name	Business activity	Location
1	National Automobile Industry Company	Assembly	Jeddah
2	Arabian Axles, Foundries and Spare parts Company	Axles	Dammam
3	Rezayat Friction Company Ltd.	Brakes	Dammam
4	Saudi Germany BrakeShoes manufacturing Company Ltd.	Brakes	Jeddah
5	Akam Brake production factory	Brakes	Riyadh
6	Al Saraha Car Bodies Factory	Chassis	Dammam
7	Arabic Car Bodies Factory	Chassis	Dammam
8	Modern steel Fabrication and Exhaust factory	Exhaust, shock absorber	Dammam
9	Otaibi Silencer Factory	Exhaust, shock absorber	Dammam
10	Saudi Exhaust System Company	Exhaust, shock absorber	Jeddah
11	Alkamil Mufflers Factory	Exhausts, Mufflers	Jeddah - Taif
12	Saudi Filter Industry Company	Filters	Dammam
13	Al Mutlaq Filters Company	Filters	Dammam
14	Al Nahdi Spare parts, Foundries and Filters	Filters	Jeddah
15	Desert Filters Factory	Filters	Riyadh
16	Saudi American cars Spare parts Industry	Gear box	Riyadh
17	Technoglass Company	Glass	Jeddah
18	National Glass and Mirrors Ltd.	Glass	Jeddah
19	Saudi Lamino Ltd.	Glass	Riyadh
20	Car Seat and Cushion Factory Company	Interior	Riyadh
21	Sasco Renewing Engine and Car Water Pumps Factory	Pumps	Riyadh
22	Al Nahda Radiator factory	Radiators	Dammam
23	National Radiator Factory	Radiators	Dammam
24	Zaid Md Drawaish and Partner Radiator Factory	Radiators	Dammam
25	Al Aman For Radiator Factory	Radiators	Dammam
26	Gulf Radiator Factory	Radiators	Jeddah
27	El Salama Radiator Factory	Radiators, brakes	Dammam
28	Al Fawzan Radiator Factory	Radiators, brakes	Riyadh

Source: *www.rak-realestate.de, 2009*

Economic crises due to the plunging down of oil prices to a large extent did not change the Saudi consumer confidence in terms of demand and attitudinal behaviour compared to other countries in the region. The tripod of Saudi consumers is high disposable income levels, economic status

and confidence. The population of Saudi Arabia is pegged at little more than 30 million considered to be the largest in the region (see figure 2: The Kingdom of Saudi Arabia's Population for the years 1955 - 2016). 67% of the population, that is 20 million are Saudi nationals, the remaining

33% are expatriates from across the globe (Arab News, 2015³). With a median age of 28 years, more than 80% under the age of 50, the majority of the population is young (see figure 3: Saudi Arabia's Age Structure

for the year 2015). In the current times, the world believes that "young people are better educated" and more tolerant than their parents (Rhoda Erin, 2015).

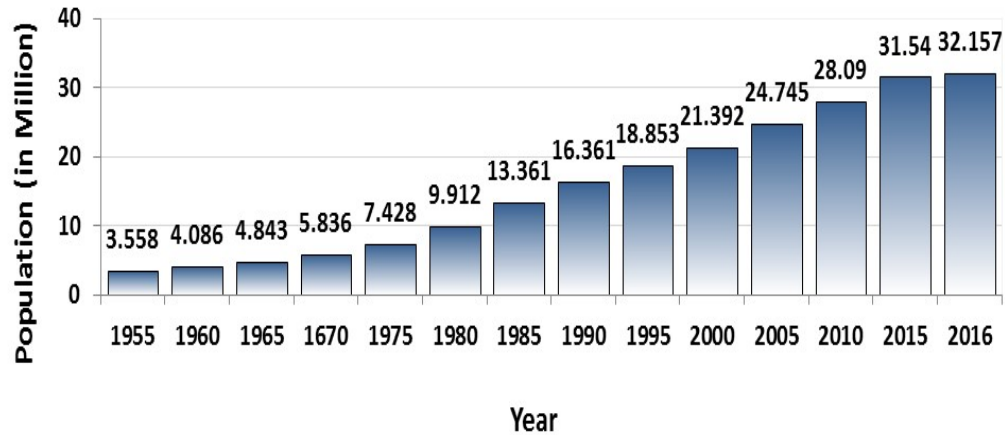


Figure 2: The Kingdom of Saudi Arabia's Population for the years 1955 – 2016

Source: www.worldometers.info.com, 2016 22

According to Autocare Association (2014), consumer preferences of car ownership places sedans on top with 75% share with 4X4's account for 20% of vehicle ownership in Saudi Arabia. Larger families seem to prefer American cars, while small ones tend to buy European cars. Those with lower income levels, Korean cars seem affordable and inexpensive to

maintain. Saudi consumers are very particular about value buying. The market is not price sensitive to a large extent contrastingly brand loyalty is low. Consumers are highly experienced in buying cars. Their buying process is derived by negotiation, return for money, customer and after sales services.

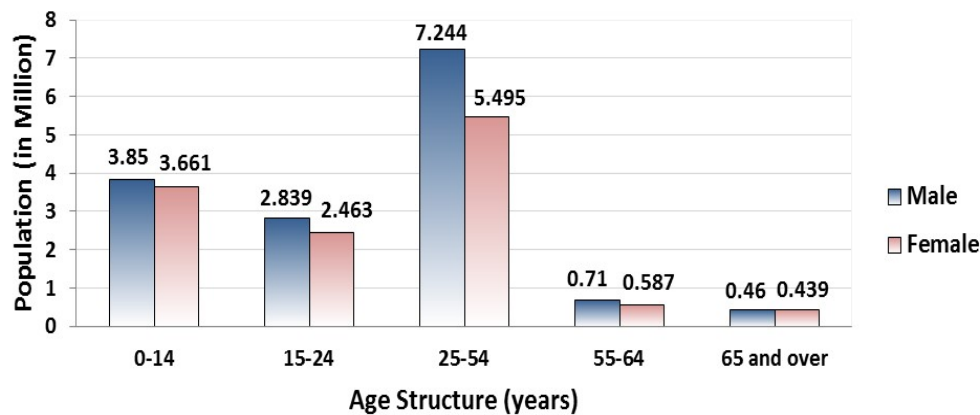


Figure 3: Saudi Arabia's Age Structure for the year 2015

Source: www.cia.gov, 2015

Institutional customers include car rental agencies, restaurants and businesses providing delivery services, individuals or companies operating taxi services, and companies, enterprises or government authorities that provide their employees or management personnel with cars instead of paying them transportation allowances. In addition to the several businesses that offer cars as rewards and gifts for specific contests and marketing campaigns. In a nutshell the major reasons behind consumers choosing a specific make-, over others include: affordable price, compatible interior design, stylish and attractive exterior, customer service, after sale services, dealers reputation, performance of the engine, security and safety, and social image.

Automobile manufacturing

Saudi Arabia is the largest automobile and auto spare parts re-export hub for the Middle East region. With the increasing demand, projections say by 2020 sales of automobile can grow up to one million units (Arab News, 2014¹) and can place Saudi Arabia at the 16th spot in the globe. This rationalizes the Kingdom's approach and keenness toward establishing local automotive assembly and spare parts production operations (Bailey Robert, 2015). According to the National Industrial Clusters Development Program (NICDP), the automobile sector is considered to be

one of the top five industries to be developed in the Kingdom of Saudi Arabia. This move will contribute to the growth of Saudi Arabia's automobile industry by attracting more international investors and automobile manufacturers creating an enormous number of jobs for the young population.

Saudi Arabia is considered to be among the 10 richest countries in natural resources. It is characterized by a number of advantages that can be called comparative and are able to contribute to the Kingdom's success in the local automobile manufacturing industry. Such advantages include the availability and affordable land, abundant energy, mineral resources, and the existence of complementary businesses for car manufacturing materials. These complementary businesses will support with materials at right time, quantity at lowest cost. Meanwhile, the domestic car manufacturing industry will boost the operations of the local steel, aluminum, plastic, glass factories that supply the required materials for car making. So, it is a win-win proposition. Saudi Arabia Basic Industries Corporation (SABIC) could be considered one of the Kingdom's greatest complementary assets in the local automobile industry. It became among the largest petrochemicals companies in the world manufacturing chemicals, intermediates, industrial polymers, fertilizers, and metals. SABIC had the work

experience with several automobile manufactures like Hyundai (which holds the second largest market share in Saudi Arabia), Volkswagen, Mitsubishi and other similar companies. SABIC collaborated with these companies for frugal material innovations to meet the consumer needs across (Middle East Arab News, 2013²).

Al-Abdrabbuh Samir (2011) says that in 2011, SABIC had signed a deal with Montefibre an Italian acrylics producer granting SABIC an international license on carbon fiber technology. Carbon fiber also called graphite has interesting properties that makes it ideal for aerospace and automobiles manufacturing. It produces extremely light and rigid products when mixed with resin. SABIC can help the local car manufacturing industry to develop a competitive advantage. In addition, according to -www.sadara.com-, (2016), Sadara Chemical Company located in Jubail Industrial City produces several products for automobile industry including adhesives, brake fluids and car seats with a capacity over three million tons per annum. Ma'aden, yet another complementary company is an important facilitator of mineral resources. Ma'aden explore the bauxite resources to produce aluminum, which is the essential material used in car making. Ma'aden has developed a joint venture with Alcoa that is expected to be the largest aluminum complex in the Kingdom which ensures the sustainable supply of aluminum to automobile manufactures (Haider Saeed, 2015).

The foundations for making automobile manufacturing in the Kingdom were initiated by the- National Industrial Cluster Development Program (NICDP) signing a "Letter of Intent" with Tata Group, India's largest automobile company to establish a 1.2 billion dollar "Jaguar Land Rover JLR" production plant in Yanbu located in the western part of Saudi Arabia (Arab News 2012). According to Abdul Ghafour (2010), for many decades, producing a car that is locally designed and manufactured has been the dream of the Kingdom's leadership and people. "Ghazal 1", the first Saudi designed car is to be developed under a joint venture between King Saud

University (KSU), Mowakaba for Industrial Development & Overseas Commerce (MIDROC), and South Korea's Digm Automotive Technologies. It was designed to specifically serve the Gulf climate targeted at entry segment. According to Thomas Beatrice (2014) and Tago Abdul Hannan (2014), the Saudi Malaysian Industrial Development Holding Company has obtained a preliminary license granted by the Saudi government to start the research and development phase of building a "made in KSA" car.

Future Ahead

In Saudi economy, oil revenues account for 45% of its GDP and about 90% of the total government income (Index Mundi, 2014). In the next ten years, the government wants to systematically come out of over reliance on oil and diversify into other industries including automobiles. In this direction, there is a call to global automobile giants to consider Saudi Arabia to be an investment destination for manufacturing automobiles and spares. Among all, automobile is recognized to be one of the important industries. It is considered as one of the heavy, lucrative and most profitable industries. Being one of the largest importers of automobile in the region, Saudi Arabia is exerting all its efforts to develop a local automobile industry. To create competitive advantage for automobile industry, exploration and conversion of natural resources from non-useful materials to useful materials is taking place in a big way. It is true that this move can be very challenging and the Kingdom may face some difficulties and obstacles across its way. Yet, Saudi Arabia's strategic location, strong infrastructure, rich natural resources, financial and human resources, and the existence of the supporting complementary businesses make this move achievable. It's an opportunity for global auto giants to invest, reap higher returns and also develop competitive advantage. Entry will not only serve the Kingdom's local demand, but also that of the Middle East countries. Saudi Arabia has the potential to become one of the leading automobile and spare parts manufacturers in the world.

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Note 1

The definition of Automobile from Merriam Webster "a usually four-wheeled automotive vehicle designed for passenger transportation" (<http://www.merriam-webster.com/dictionary/automobile>).