

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 6/30/2016

GAIN Report Number: SA1604

Saudi Arabia

Food Service - Hotel Restaurant Institutional

2016

Approved By:

Hassan F. Ahmed, U.S. Embassy, Riyadh

Prepared By:

Hussein Mousa, U.S. Embassy, Riyadh

Report Highlights:

The institutional food service sector in Saudi Arabia is expected to have a strong growth in the next five years. The new Saudi government strategy Vision 2030 aimed at diversifying the country's economy away from dependence on oil revenues from current 70 percent to 31 percent in 15 years period. The plan envisages increasing the number of annual foreign Umrah pilgrims from the current 8 million to 15 million by the end of 2020 and to 30 million by 2030. The Saudi government has already planned to significantly increase the number of Hajj pilgrims to Makkah as well as foreign visitors to the country's historic landmarks in the next few years. The huge increase in the number of foreign pilgrims and tourists is expected to drastically increase demand by hotels, restaurants and institutional services for imported food products in the coming years.

SECTION I. MARKET SUMMARY

The most recent data available from the Saudi Commission for Tourism and Antiquities' (SCTA) Puts the total revenue generated from sales of food and beverages by consumer food service (restaurants and cafés) at more than \$14.9 billion. In 2012, the total number of restaurants and cafés were estimated at 24,738 units and 5,355 units, respectively. The total value of food ingredients purchased by food service establishments in 2012 was estimated at \$6.2 billion, up from \$4.9 billion in 2010. The SCTA food purchase figures do not differentiate among various restaurants by types such as fast food, fine dining or casual dining. It also groups cafés, coffee shops, street stalls and kiosks all under one category. SCTA has not yet issued statistics for years 2013 to 2015.

The institutional food sector in Saudi Arabia offers services to schools, worker camps, company cafeterias, hospitals, universities, Hajj catering, military troops, prisons, airline catering, and special events. There is no official government data on the value of the institutional food service market in Saudi Arabia. However, experts from major catering companies interviewed for this report estimate the annual value of the market to be about \$5 billion. This subsector serves several millions of meals a day and relies mostly on imports to meet its huge demand for institutional food products.

According to SCTA data, the hotel accommodation sector generated about \$5.5 billion in total revenues in 2012. Of the 2012 total accommodation revenues, about 92 percent was generated from hotel rooms, furnished apartments and villa rents, while the revenue from sales of food products accounted for about \$213 million or about 4 percent of the total revenues. In 2014, the number of hotel rooms available for rent was estimated at 299,500 units. This number is forecast to reach 401,360 by 2020 with an estimated total investment of \$38.4 billion, an increase of more than 100,000 rooms compared to 2012.

Saudi Arabia is among the most visited countries in the Middle East, though it is not designated as a tourist destination and does not issue tourist visas. In 2014, about 19 million visitors entered the Kingdom for various reasons, including religious, family visits and business purposes. This represents an increase of 9 percent over the number of visitors in 2011. In 2014, Hajj and Umrah pilgrims to Makkah accounted for about 50 percent of the visitors, followed by family visits and business visits. The visitors spent an estimated total of \$18 billion during their stay in the country.

Saudi Arabia relies heavily on imports to satisfy the HRI sector food needs, with more than 80 percent of the sector's food requirements coming from outside the Kingdom. The sector has a full self-sufficiency in only two products, fresh milk and table eggs. The self-sufficiency level for poultry meat is estimated at 46 percent and for vegetables is about 85 percent. The latest available trade data shows that Saudi Arabia imported \$19 billion worth of food and agricultural products in 2014, a decline of about 5 percent from imports in 2013. In 2014, consumer-oriented food products accounted for about 48 percent of the total Saudi food and agricultural products imports and reached about \$9.1 billion.

According to U.S. Customs data, U.S. agricultural and food products exports to Saudi Arabia in 2014 reached their highest levels, at \$1.37 billion (FOB value), representing an increase of 16 percent compared to 2013. U.S. exports of consumer-oriented food products to Saudi Arabia reached a record high of \$578.4 million, 9 percent growth over 2013.

Key Factors Driving Demand in the Food Service Market

1. **Social and cultural changes:** During the last two decades, Saudi Arabia has experienced rapid socio-cultural changes caused by the accelerating economy, which allowed Saudis to travel to Western countries for education and tourism, exposing them to Western foods and culture. In the early 1990s, major American fast food chains such as Burger King, KFC, and McDonald's began to open outlets in the Saudi market. These factors resulted in major changes in Saudi food choices and eating habits particularly, among younger consumers. Dining at the western and western style domestic fast food chains is considered a form of entertainment that substitutes going to movie theaters or nightclubs. About 70 percent of the Saudi population of 20 million people is under the age of 30 years. Dining at fast food restaurants or going to cafés/coffee shops became a major form of entertainment and a way to socialize with friends. This factor is one of the key drivers that have been helping in the rapid expansion of the fast food restaurants in Saudi Arabia. Most of the U.S. fast food and casual dining restaurants can now be found in Riyadh, Jeddah and other major cities of Saudi Arabia. In 2014, the total revenue generated by sales from the fast food outlets was estimated at about \$5.7 billion, an increase of 60 percent over 2009. It is projected that sales from fast food sector will exceed \$7 billion by 2020.
2. **Increased disposable income:** Saudi Arabia's economic growth in the past decade boosted per capita income to \$25,400 in 2014 compared to \$20,267 in 2008. With higher income, eating out became more affordable to individuals and family. Saudis spend about 27 percent of their income on food. The Saudi government offers various direct or indirect subsidies to keep the prices of staple food products at very low levels. This, in addition about 3 percent annual population will fuel demand for food imports since the country relies on foreign suppliers to satisfy about 80 percent of its food consumption needs. The high per capita income, changing lifestyle and diets in Saudi Arabia are expected to boost the demand for high quality food ingredients and products by the food service sector.
3. **More women in the workplace:** More Saudi women are joining the work force than ever before. According to 2012 data issued by Saudi Central Department of Statistics and Information, 647,000 Saudi women were employed in 2012, up 86 percent compared to 347,370 in 1999. Started in the middle of 2012, women are allowed to work in shops and retail stores for the first time in Saudi Arabia's recent history. Women can now work in lingerie and makeup stores, as supermarket cashiers and at factories in women only sections without mixing with male workers. Working women have less time than before to prepare food at their home, especially those who work in the private sector from 8 a.m. to 5 p.m. These women often opt for purchasing prepared foods on their way home or order meals for lunch. Currently, Saudi women accounts for about 15 percent of the total native Saudi workforce. Until recently, the Saudi private sector businesses used to operate on two shifts system, which allowed for four hours of lunch break to go home at 12:00 p.m. for lunch break and mid-day siesta. The employees used to return to work for the second shift at 16:00 hours and work until 20:00 hours. The new working-hours schedule for most businesses allows only for 30 minutes of lunch break, which is not sufficient for employees to go home for lunch. This has increased demand for food deliveries to offices and work places more than ever before. Pizza is the most popular fast food ordered for lunch.

4. **Growing number of travelers and local tourism:** The number of visitors to Saudi Arabia has been steadily growing in the last several years. In 2014, about 19 million visitors entered the country for various religious and other purposes, an increase of 9 percent over the number of visitors in 2011. In 2014, Hajj and Umrah pilgrims to Makkah accounted for about 50 percent of the visitors, followed by family visits, business trips and medical tourism. The visitors spent an estimated total of \$18 billion mostly in the HRI sector. To accommodate the increasing Hajj and Umrah pilgrims, mega hotel construction projects worth about \$10 billion are being constructed in the vicinity of the Grand Mosque in Makkah by several Saudi investors, which are expected to make available more than 60,000 rooms by the end of 2017.
5. **Foreign workers camps:** currently, there are 10 million foreign workers in Saudi Arabia of which majority are single and live in camps at their work sites. The workers are served by catering companies three meals a day. In addition to labor camps, the local catering companies provide food catering services to the military, oil and petrochemical companies, hospitals, universities and schools.

Table 1. Advantages and Challenges for U.S. Food Exporters to Saudi Arabia

Advantages	Challenges
Popularity of American culture carries over to American food.	Price competitive imports from EU and Asian countries has impacted U.S. market share.
U.S. fast food and casual restaurant chains are popular and familiar to Saudi consumer.	Freight costs from the U.S. are higher than those from export competitors in Europe and Asia.
U.S. exporters are reliable and can provide consistent and quality products to the	A temporary ban on U.S. beef and beef products exports imposed by the Saudi government in May 2012

Saudi buyers.	is still in effect and has forced Saudi importers to switch to Australian and New Zealand beef.
There is a huge number of American food chain and restaurants in Saudi Arabia that will be interested in sourcing some of their food supplies from the U.S.	Livestock and poultry meat exported to Saudi Arabia must be Halal certified. Poultry meat must come from poultry fed on 100 percent animal protein. A requirement that many U.S. suppliers are not able to meet.
	Consumption of American fast food is blamed by domestic newspapers for rampant obesity and increased incidences of cardio-vascular disease, diabetes, and hypertension among young Saudis.

SECTION II. ROAD MAP FOR MARKET ENTRY

The latest available U.N. trade data shows that Saudi Arabia imported \$19 billion worth of food and agricultural products in 2014, a decline of about 5 percent from imports in 2013. The significant decline in the Saudi agricultural and food products imports was mostly due to lower prices of grains such as corn, wheat, barley and rice.

In 2014, consumer-oriented food products accounted for about 48 percent of the total Saudi food and agricultural products imports and reached about \$9.1 billion. Brazil was the largest supplier of high value products, with a market share of 14.1 percent, followed by India at 10.8 percent, U.S. at 6.5 percent, France at 5.9 percent and Egypt at 5.6 percent.

According to U.S. Customs data, U.S. agricultural and food products exports to Saudi Arabia in 2014 reached their highest levels, at \$1.37 billion (FOB value), representing an increase of 16 percent compared to 2013. U.S. exports of consumer-oriented food products to Saudi Arabia reached a record high of \$578.4 million, with about 9 percent growth over 2013 and accounted for 42 percent of the total U.S. food exports. Bulk products accounted for 33 percent of the total U.S. agricultural exports, while intermediate products accounted for about 22.5 percent.

A. *Entry Strategy*

It is important for U.S. suppliers who are interested to enter the Saudi food service market to understand customers' demand and how to meet their purchasing requirements or specification. In addition to meeting product standards and regulatory requirements, it is imperative that new-to-market food suppliers consider the following points when contemplating entry into the Saudi food service market:

- **Look for Strong and Knowledgeable Importer:** Exporter must look for and partner with knowledgeable and reliable importer who knows how the food service sector operates. The prospective importer should have professional sales force and strong distribution network in

major cities, particularly Riyadh, Jeddah, Makkah, Medina, Dammam and Al-Khobar where most of the foodservice and hotels are concentrated.

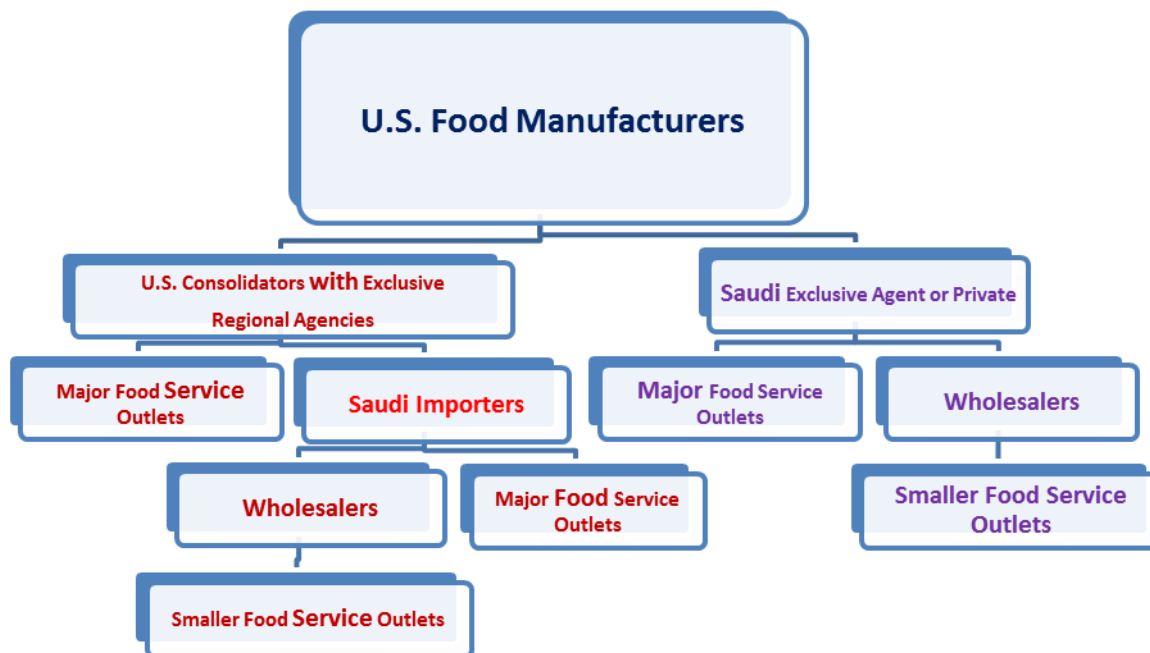
- **Develop Personal Relationships:** Personal relationships are important in establishing long term and reliable working relationships in Saudi Arabia. The best way to accomplish this is to travel to Saudi Arabia. A visit will enable a potential U.S. exporter to see first-hand the types of products needed by the Saudi food service sector and to meet one-on-one with key importers. Face-to-face meetings with buyers in the Arab world are very important and help build trust and confidence. Most Saudi businessmen speak English.
- **Attend Regional Food Shows:** It is vital that prospective U.S. exporters of food service products consider attending U.S. based shows such as the National Restaurants Association Show (NRA) and regional food shows, particularly the Gulfood Show, which is held in Dubai annually. The Gulfood is the most important trade event for Saudi agribusiness, where more than 4,500 Saudi companies attend the show every year. Other regional food shows that attract a significant number of Saudi food buyers include Anuga in Cologne, Germany and SIAL in Paris. There are also a few smaller domestic food expositions that are held annual in Jeddah and Riyadh.
- **U.S.-based Consolidators:** Consider using U.S.-based consolidators that have experience exporting food service products to Saudi Arabia particularly, when exporting small quantity orders. Most Saudi importers buy for mass distribution and employ consolidators. Consolidators source products from U.S. wholesalers, apply bilingual stickers, and arrange mixed containers for shipment to Saudi Arabia. Consolidators often recommend new-to-market products to Saudi Arabian importers.
- **Provide Promotional Assistance:** Saudi importers who are interested to serve as exclusive importers would ask for suppliers support to conduct promotional activities or to provide training on how to better use imported food ingredients, particularly if the ingredients are new to the market.
- **Direct Contact:** Develop direct contact with hotel and restaurant chains management, including chefs and food purchasing managers to offer products and after sales services.
- **Comply with SFDA Regulations:** Work closely with local importers to comply with food import regulations, including product labeling to facilitate smooth imports and minimize rejections at Saudi ports of entry.

B. Market Structure

- U.S. food manufacturers normally sell directly to their Saudi agents, pack for Saudi private label owners or sell exclusively to U.S.-based consolidators.
- Major Saudi importers operate well established Kingdom-wide distribution networks and sell directly to hotels, restaurants, cafes, institutional customers, and wholesalers.

- Some Saudi companies that specialize in supplying the HRI sector import a wide range of food products for mass distribution by 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. The consolidators assist Saudi food importers by sourcing products from U.S. manufacturers and wholesalers as well as provide services such as placing stickers on labels. The stickers translate key ingredient and product information into Arabic. Sticker labeling is a laborious task and many manufacturers do not want to bother with it.
- Some large food service companies that operate foreign casual dining or fast food restaurants under franchise agreements have regional purchasing offices located outside Saudi Arabia. For instance, McDonald's uses a Saudi company based in Dubai as its exclusive supplier of imported food products for its Middle East operations. Al-Ahlia Restaurant Company that operates KFC, Hardee's, TGI-Friday's, Chicken Tikka, Krispy Kreme, Longhorn Steakhouse and Red Lobster in Saudi Arabia, has a regional purchasing office in Cairo. The Arabian Food Supplies, which operates casual dining restaurants such as Chili's, On the Border and Fuddruggers, has a central purchasing office based in Dallas, Texas. The regional offices are responsible for purchasing food service food products and ingredients from approved suppliers worldwide. These and other large domestic and global brands fast food and casual dining firms import directly between 30 to 85 percent of their food product needs. The food products that are directly imported include beef, poultry, cheese, sauces, French fries, potato wiggles, frying oil, mix buns, ketchup, deserts, salad dressing, seafood (shrimp, salmon and other fish) and syrups. Over all more than 80 percent of food products used by the food service sector is imported.
- Many large local and international fine dining, casual restaurants, fast food chains, coffee shops and cafes and hotels have central purchasing offices where each outlet sends purchase order on a daily basis. The central purchasing offices consolidate the orders and conduct international purchases.
- Some five star hotels import limited quantities of food ingredients, such as specialty, quality cheeses and seasonings that are not readily available in the domestic market.
- Smaller restaurants outlets, coffee shops and cafes purchase the required food products and ingredients from the domestic wholesale market.
- Overall, the Saudi HRI sector is serviced by several specialized food importers who have extensive network of contacts that enables them to procure products that meet customers' satisfaction and price competitiveness. Most of the HRI companies import large percentage of their food product requirements from the United States and to some extent from Europe and Latin America.

Flow Chart: Distribution Channels for the Consumer Foodservice Industry in Saudi Arabia



HRI Sourcing of Domestically Produced Products

- Sourcing of poultry products for most international casual dining and fast food franchisors is done locally or from neighboring Gulf countries. For example, Supreme Food Group (SFG), a Riyadh based Saudi company, produces a wide range of poultry and side order items in accordance with customers' specification and menu options. The firm currently supplies beef (mostly imported) and chicken burgers to Burger King (Middle East), Pizza Hut, Dairy Queen, Pans and Co, Fuddruckers and Applebee's (chicken burger). In addition, the company manufactures and distributes its own range of poultry, red meat and side order items to the broader food service market. The firm's chicken and beef burgers are made from imported chicken meat and beef.
- National Food Company (Americana), which is based in Jeddah, is certified to supply Hardee's with beef burgers. National Food Company is owned by the Americana Group (Kuwait Food Company) that operates KFC, Hardee's and other American fast food chains and casual dining restaurants in Saudi Arabia. The firm's beef burgers are produced from imported beef.
- Jeddah based Nashar Fresh Meat Company supplies Applebee's and other fast food chains with beef burger which is produced from imported beef.
- Other local food producers provide various ingredients such as bread buns, other bakery items, shortenings, ketchup, salad dressing and mayonnaise to the food service sector. Most of these products are processed from imported raw material. Sales departments of the local food producers visit the HRI subsector weekly or even on daily basis to promote their products.

HRI Sourcing of Fruit and Vegetables:

Major hotels and food service operators rely on domestic suppliers for fruit and vegetables. The suppliers deliver the required fruit and vegetables to each restaurant or hotel across the Kingdom according to agreed delivery terms and conditions.

C. Sub-Sector Profiles

1. Tourism and Hotel Business

Saudi Arabia is the leading visited country in the Middle East, even though the Kingdom is not a tourist destination and does not issue tourist visas. In 2014, about 19 million visitors entered the Saudi Arabia, 50 percent of which for Hajj and Umrah pilgrimage. The SCTA's goal is to increase the total number of both foreign and domestic tourists from 41.4 million in 2011 to 88 million in 2020. One of the STCA strategies to help meet the 2020 goal is to facilitate better tourism infrastructure in order to convince more Saudi nationals to spend their holidays in the country.

SCTA data indicates that the tourism sector has become the second largest industry in the Kingdom constituting for 3.6 percent of GDP in 2010. The sector accounted for 7.5 percent of non-oil GDP and 12.3 percent of private sector GDP. The food service sector contributed to 34.8 percent to the share of tourism GDP in 2010. In 2011, the hotel sector provided 670,000 jobs, and projected to reach 1.79 million by 2020.

The Saudi Vision 2030, an ambitious development initiative announced by the Saudi government in April 2016 aims at diversifying the Kingdom's economy away from dependence on oil, puts significant emphases on the key role that Umrah, Hajj and tourism sector will play in achieving the goal. The 15 year development plan envisages in increasing the annual foreign Umrah pilgrims visits to Makkah from the current 8 million to 30 million by the end of 2030. The National Transformation Plan 2020 (NTP 2020), one of the Vision 2030 initiatives issued in June 2016, has a plan to increase the annual number of Umrah visitors to 15 million by the end of 2020. The NTP 2020 has also targeted to increase the number of foreign Hajj pilgrims to Makkah from the current 2 million annually to 2.7 million by 2020. The expected huge expansion in the Umrah and Hajj sectors is expected to drastically boost the demand for imported food products used in food service sector as well as increase the demand high quality accommodation. In 2014, the Kingdom's estimated revenues from foreign Umrah and Hajj visitors were \$10.1 and \$8.5 billion, respectively. According to a study conducted by the Makkah Chamber of Commerce, the average foreign hajj pilgrim spends around \$5,000 over the course of his/her stay in the Kingdom.

The government's plan to develop the local tourism industry by establishing largest Islamic museum and issue tourist visas to allow foreign tourists to visit the Kingdom's famous tourism sites such as Madan Saleh, Unhood and other historical landmarks is expected to help increase the country's non-oil revenues significantly.

- ***Tourist Accommodation***

In 2012, the accommodation sector generated about \$5.5 billion in total revenues, of which about 92 percent was generated from hotel rooms, furnished apartments and villa rents. Revenues from sales of food products accounted for about \$213 million, or about 4 percent of the total revenues.

The growing religious tourism in the Kingdom has resulted in a huge investment in the country's tourism accommodation facilities mainly hotels and furnished apartments. These investments have helped drastically increase the number of hotel rooms from 140,000 units in 2010 to 299,500 units in 2014. STCA expects the number of hotel rooms to reach about 401,360 by 2020, with a total expected investment of about \$38.4 billion. In 2014, there were a total of 1,222 hotels most of which are two-star or below. The number of four and five-star hotels are estimated at 150 hotels. The majority of these hotels and furnished apartments are located in Makkah region mainly, because of Hajj and Umrah visits, followed by Madina, Jeddah, Eastern region and Riyadh. In 2014 there were 2,488 furnished apartments with 87,080 rooms. This number is forecast to reach 116,695 by 2020. The huge projected increase in the number of hotel rooms is expected to boost the demand for high quality institutional food products such as beef, dairy products, poultry meat and seafood by the tourist accommodation establishments, particularly by five star hotels.

- ***Mega Hotel Construction Projects in Makkah***

The continued increase in the number of foreign and domestic visitors to Makkah for Hajj and Umrah rituals has resulted in acute shortage of quality accommodation. To overcome the scarcity of high quality lodging, several Saudi businessmen have been engaged in massive investments in several mega hotel construction projects in the vicinity of the Grand Mosque with an estimated total cost of about \$10 billion. The three main hotel projects are being carried out Jabal Omar Development Company, Abraj Kudai, and Al Rajhi Investment (Tilal Al-Naseem Hotels). The Jabil Omar hotel project, which will be completed by 2016, will have 37 five-star hotels of 48 story height that will accommodate 45,000 customers. Abraj Kudair is expected to complete the construction of the world largest hotel in one location at the end of 2017. The hotel will have twelve towers, 10,000 rooms and 70 restaurants. Al Rajhi's Tilal Al-Naseem Hotels will build several hotels with 6,000 rooms in the next three years. The new hotels will be operated by well know international hotel companies such as Hilton Worldwide, Marriott International, Hyatt International, Accor, Novotel, IBIS, Radisson, and Sheraton.

- ***Expanding Saudi Tourist Accommodation Sector Attracts International Hotel Chains***

The boom in the Saudi hospitality sector has attracted many internationally known hotel chains to enter the Saudi market for the first time or engage in expansion projects in major Saudi cities. The new hotels that recently entered the Saudi hospitality industry include, Dusit Thani, Shangri La, JW Marriott Hotel, Radisson Blu, Courtyard by Marriott, Double Tree by Hilton, Hilton Garden Inn, Swiss-Belhotel, Aloft, Centro, Adagio, Fraser Suites, HIEX, Tulip Inn, Park Inn Hotel and Residence, Best Western, Premier Inn, Yotel, Centro, Citymax Hotels, Kingsgate, ibis and Super 8. Some of these hotels have already started operating in major cities of the Kingdom while others are scheduled to open in the next couple of years. Other major brands are already in the market, such as Sofitel, Novotel, Four Points by Sheraton, Hilton, Intercontinental, Marriott, Golden Tulip, Crown Plaza, Holiday Inn and Hyatt are engaged in huge expansion plans. The world's largest Holiday Inn with 5,154 rooms across five towers will be fully operational in Makkah by 2018. The hotel is expected to put in operation about 1,650 rooms which are located in two towers at the end of 2015. It is worth mentioning that foreign hotel companies are not allowed to own properties in Saudi Arabia and their operations are limited to franchises and management contracts.

2. Catering Subsector

The catering or institutional food sector in Saudi Arabia offers services to schools, workers camps, company cafeterias, hospitals, universities, Hajj catering, military, prisons, airline catering, and special events. There is no official government data on the value of the institutional food service market in Saudi Arabia. However, experts from major catering companies interviewed for this report estimate the annual value of the market to be about \$5 billion. This subsector serves several millions of meals a day and relies mostly on imports to meet its huge demand for institutional food products. The demand for institutional-sized food products by the catering subsector has been increasing significantly annually as the subsector feeds several millions customers every day. The Kingdom's catering section clients can be divided into five categories:

- **Blue-collar workers:** there are about 10 million expatriates residing and working in Saudi Arabia. Most of the ex-pats are blue-collar workers and majority of them are singles who live on large labor camps, where sponsoring companies provide them with three meals a day at very low costs. Products of high demand for this group are commodities like frozen chicken, rice, palm oil, sugar, tea and to a lesser extent low quality frozen and low price red meat. Chicken and rice are served two times a day, for lunch and dinner, and account for the bulk of products consumed by this category.
- **White-collar ex-pats:** These employees work with government institutions and private sector firms and are served by quality catering companies that provide high quality meals (fine dining meal services). These wealthy institutions, such as petroleum companies (offshore /onshore oil production platforms), petro chemical companies, high-tech foreign and local companies, and Saudi military and security forces, offer high quality meals to their employees that usually include red meat, sea foods, dairy products, fresh fruit, fruit juices and other high value food products.
- **Hospitals and other Institutional Customers:** The third group that is served by domestic catering companies includes hospitals, universities, schools, residential compounds and airlines. This group demands good quality foods at competitive prices.
- **Hajj and Umrah:** More than seven million Muslim pilgrims visit Saudi Arabia each year for Hajj and Umrah. The pilgrims usually stay from two weeks and up to two months around the cities of Makkah, Madina, and Jeddah and require room and board. The pilgrims rely on restaurants or catering companies for three meals a day during their stay in Saudi Arabia. The quality of food consumed by this group depends on the income level of the pilgrim groups. This further increases the demand for food products and benefits the Kingdom's restaurants and food catering sector.
- **Catering to special events:** The demand for food catering to host special such as weddings, conferences, Iftar and Sohour receptions during the holy month of Ramadan has been growing in the past few years. The increased catering demand by this category is due to the booming Saudi economy, maturing population, and increased number of foreign missions organizing parties and day national celebrations. Currently, there are 100 embassies and 54 consulates based in Saudi Arabia. This segment requires high quality food at competitive prices.

3. Restaurants Subsector

The latest available data from the SCTA shows an impressive growth in revenues of restaurants and cafés over the past few years. The total food sales in restaurants and cafés increased from \$7.21 billion in 2006 to \$12.13 billion in 2012. During this period, the subsector use of food ingredients increased by more than 110 percent from \$2.93 billion in 2006 to \$6.18 billion in 2012. The subsector is a major user of imported food products such as poultry meat, red meat, cheese, French fries, processed fruit, vegetable, mayonnaise, ketchup, sauces, cooking oil and rice. The total number of restaurants increased by 9 percent, from 22,649 outlets in 2006 to 24,738 outlets in 2012.

The number of specialized café and coffee shops in Saudi Arabia has been rapidly growing in the past few years. According to SCTA, the number of café outlets increased from 1,953 outlets in 2006 to 5,355 outlets in 2012 and generated total revenues of \$1.4 billion that year, compared to \$347 million revenues generated in 2006. It is projected that revenues from this subsector will exceed \$2 billion by 2020. Cafés and upscale coffee shops are increasingly becoming preferred places for young Saudis to meet and socialize with friends. Major coffee chains such as Starbucks, Costa Coffee, Seattle's Best, Mochachino, Dr. Café (local brand), Tim Hortons, Coffee Bean & Tea Leaf, Caribou Coffee, and Second Cup are widely available in major cities of the Kingdom.

Table 2: Revenue from Food Service Establishments in Billions of U.S. Dollar

Food Service Type	2012	2010	2009	2008	2007	2006
Restaurants	\$10.73	\$10.94	\$9.80	\$8.93	\$8.09	\$6.87
Cafés	\$1.40	0.67	0.51	0.38	0.44	0.34
Total Food Service Revenue	\$12.13	\$11.61	\$9.80	\$9.31	\$8.53	\$7.21

Source: SCTA's Tourism Information and Research Center

Note: Data for 2011 is not available

Table 3: the Numbers of Food Service Establishments for 2005-2010

Food Service Establishment Type	2012	2010	2009	2008	2007	2006
Restaurants	24,738	26,166	25,159	23,563	23,563	22,649
Cafés	5,355	2,244	2,158	2,021	2,021	1,953

Source: SCTA's Tourism Information and Research Center

Note: Data for 2011 is not available

A. Fast Food Restaurants

A recent Euromonitor International report on the Saudi Fast Food sector puts the total number of fast food outlets in 2014 at 14,366, an increase of about 11 percent over 2009. The total sales revenue of this subsector was estimated at about \$5.7 billion in 2014, an increase of 60 percent over 2009. It is

projected that sales from fast food subsector will exceed \$7 billion by 2020. The main reasons for the strong demand for fast foods in Saudi Arabia are increased disposable income, rising young population (about 70 percent of total Saudis are under the age of thirty), changes in lifestyle (more women working and lack of time to prepare foods at home), continued exposure to western consumer trends (more Saudis are traveling than ever before) and lack of other get-together venues for youth. Dining at fast food and casual dining restaurants remains very popular particularly with the younger population that considers dining at fast food restaurants as a major form of entertainment and a place to meet friends.

American fast food chains continue to dominate the upscale fast food restaurants market in the Kingdom. U.S. fast food chains such as KFC, McDonald's, Pizza Hut, Burger King, Hardee's, Subway, Little Caesar's Pizza, Pizza Inn and Domino's Pizza. Other local chains such as Herfy, Al-Beck, Shawaya House, Taza, Dajen, and Kudo are gaining popularity and continue to expand in major urban areas. All of the American fast food chains and some local outlets such as Kudu, and Herfy import significant amounts of food requirements directly from the United States. It is estimated that overall about 80 percent of the food products used by the domestic HRI sector come from imports.

Other countries competing in the Saudi fast food market include the United Kingdom with Wimpy's burgers, the Philippines with Jollibee, Italy with Sbarro pizza and pasta restaurants and Switzerland with Movenpick ice cream. These chains have a limited number of outlets each. It should be noted that foreign restaurants (fast food and casual), coffee shops and cafés companies are not allowed to own outlets in Saudi Arabia and they are 100 percent owned and operated by the local franchisees. The franchisors roles are limited to collecting franchise fees, supplying or recommending approved suppliers and providing other operational supports as needed

In an effort to attract more customers and increase sales, many fast food chains have opened stores in new areas to capitalize on the growing number of shopping centers and malls. Others have expanded sales via drive-thru service. Some fast food outlets introduced modification to their menus to reflect local tastes (McArabia Grilled Chicken by McDonald's- a pita bread sandwich), home and office delivery, regular promotions, free give-away items and building playing areas for children. Local fast foods franchises such as Kudu, Herfy, Al Baik, Tazaj and Dajen appeal to Saudi nationals and have become strong competitors to their U.S. counterparts. For the sweet products and ice cream outlets, the United States continues to dominate with the presence of Dunkin Donut, Baskin Robbins, Cheesecake Factory, Haagen Dazs, Krispy Kreme, Cinnabon and TCBY.

Table 4: Number of Outlets and Revenues of Fast Food Restaurants Saudi Arabia in 2014

Type of Fast Food Restaurants	Number of Outlets	Sales Revenues in Value in Million of US\$
Bakery Products Fast Food	7,949	\$1,643.9
Burger Fast Food	1,230	1,516.8
Middle Eastern Fast Food	1,697	1080.3
Chicken Fast Food	979	458.1
Other Fast Food	788	351.1
Convenience Stores Fast Food	486	133.9

Ice Cream Fast Food	897	317.0
Asian Fast Food	266	131.2
Latin American Fast Food	74	22.0
Total	14,366	\$5,654

Source: Euromonitor International

Company profiles of major operators of U.S. fast food chain restaurants in Saudi Arabia

- Al Ahlia Restaurants Company** is a subsidiary of Americana Group, a Kuwaiti company involved in food production and operation of globally recognized fast food and casual dining restaurants as well as coffee shops. In Saudi Arabia, Al Ahlia Company operates several American fast food and casual dining restaurants including KFC, Hardee's, TGI Friday, Krispy Kreme, Longhorn Steakhouse, Olive Garden and Red Lobster. Currently, the company operates more than 400 fast food and casual dining restaurants. The food manufacturing and processing subsidiary of Americana Group has two plants in Jeddah that produce Americana Meat and American Cakes. Other Americana food products produced in other GCC countries such as California Garden, Farm Frites and Koki are widely available in Saudi Arabia.
- Pizza Hut** is the most popular American pizza fast food chain in the Kingdom. The first store was opened in 1987. There are two Pizza Hut franchisees in Saudi Arabia. The Jeddah based company Awni & Bashar Shaker Company is a small business that operates Pizza Hut in the city of Jeddah while the Riyadh based Mawarid Food Company owns franchise right for the rest of the Kingdom. The other company is a subsidiary of Maward Holding Company LLC (MB Holding), a huge multinational corporation with investments in petrogas exploration and production, mining and minerals, oilfield services with operations and subsidiaries spread across the globe in the Middle East, Europe, North Africa, Asia, Asia-Pacific, Australia and New Zealand. There are 232 Pizza Hut outlets in Saudi Arabia in 2015, of which Maward Foods own 195 outlets while the other 37 outlets are owned and operated by Awni & Bashar Shaker Company.
- McDonald's** opened its first outlet in Riyadh in December 1993 and now has a total of 209 outlets throughout the Kingdom. McDonald's franchise in the Western and Southern Province belongs to Reza Food Services. In the Central, Northern and Eastern provinces it is operated by the Riyadh International Catering Corp., Ltd. The firm is the largest specialized franchisee with 123 McDonald restaurants in Saudi Arabia. Reza Food Services, which operates 86 McDonald's restaurants across the Western and Southern regions of the Kingdom, is one of 20 subsidiaries of Riza Holding Company which is headquartered in Jeddah. The conglomerate's major business include commercial and industrial services, oil and gas, chemical manufacturing, construction, advertising, real estate, fitness and logistics. McDonalds tends to locate in prime areas and provides playgrounds for children particularly in its standalone locations.
- Burger King:** the first Burger King outlet was opened in 1992 Saudi Arabia by Olayan Financing Company which acquired the Burger King franchise for MENA region. In Saudi Arabia, Olayan Food Services Co. operates about 110 Burger King Outlets in major cities of the

Kingdom. Over all, Olayan Group runs more than 300 Burger King outlets in the MENA region. Other restaurants run by the group in the region include Texas Chicken and Buffalo Wild Wings restaurants.

- **Subway:** the first Subway restaurant was opened in Riyadh in 1993 by Shamel Food Company. Today there are more 115 subway restaurants in major Saudi cities. Shamel Food Company has planned to increase the number of Subway outlets to 200 by 2020.
- **Domino's Pizza:** is operated by a Riyadh based Saudi company, Alamar Foods Company. Currently there are 160 Domino's Pizza outlets in Saudi Arabia. Domino's Pizza entered the Saudi market in 1992. Alamar is a master franchise operator of Domino's pizza and Wendy's hamburgers for the MENA region (except for Wendy's in Saudi Arabia).

Company profiles of major Domestic Brand Fast Food Chain Restaurants:

- **Herfy Fast Foods:** Herfy Fast Foods was established in 1981 and now has about 300 outlets in the Kingdom. The firm is the second largest Saudi brand fast food chain in the country. Herfy Fast Food outlets are available in Bahrain, U.A.E., Kuwait, and Egypt. The company is a subsidiary of SAVOLA, one of the major Saudi share holding companies with a total investment of more than \$1.41 billion. SAVOLA Group's other major business portfolios include cooking oil processing plant, sugar and noodles/pasta production, food retailing (more than 150 supermarkets in Saudi Arabia), real estate, plastics, bakery and dairy farm. Herfy's foods division is one the largest producer and distributor of bakery products, sweets as well as poultry and livestock meat. Herfy Meat Factory is the sole supplier of beef and chicken hamburgers to Herfy Fast Food outlets. The company imports beef and chicken meat to produce hamburgers and meat products. In 2011, Herfy Foods opened its first Herfy Café & Grill. The chain has two outlets that offer steaks, seafood, wide selection of snacks and bakery products. Herfy has recently signed a franchise agreement with a Bangladeshi company, which will allow the Bangladeshi firm to 30 Herfy outlets in Bangladesh in the next few years.
- **Kudu** was established in 1987 by a Riyadh based Kudu for Catering & Fast Food. With over 230 outlets Kingdom wide, it is one of the largest domestic brand fast food chains in Saudi Arabia. Kudu has several branches in the GCC countries. In April 2015, two global private equity firms Abraaj Group and TPG signed a deal to purchase majority share in Kudu.
- **Al Tazaj Fakieh BBQ Chicken Restaurant (Al Tazaj)** is owned by Fakieh Poultry Farms, the second largest poultry farm in Saudi Arabia. It is first poultry farm to open and operate its own fast food chain in the Kingdom. Al Tazaj outlets use broiler meat produced on Fakieh Poultry Farms. Al Tazaj's first fast food outlet was first opened in 1989 in the Holy City of Makkah and today the firm has more than 100 outlets throughout the Kingdom. Al Tazaj has branches in Egypt and the U.A.E.

- **Shawaya House:** was established in 2003 by Al-Munajem Company and is specialized in providing Arabic style fast foods in an open-kitchen concept. It is a quick service restaurant for Middle Eastern dishes mainly chicken and rice. Currently, the company has more than 90 restaurants in major cities of the Kingdom.
- **Al-Baik Chicken** is the most popular fast food chain in the Western Province. It was established in 1974 in Jeddah under the brand name Broast, but changed its name to Al-Baik Chicken in the late 1980's when it switched its style to differentiate itself from other chicken outlets. Now there are 66 Al-Baik restaurants in the Western province and one in Al-Qassim. Al-Baik attracts a lot of customers because of its tasty chicken, efficient service, and very attractive price. For example, four pieces of Al-Baik chicken, with fries, a bread bun and garlic sauce is sold for US \$ 3.20.

B. Casual Dining Restaurants

The United States continues to hold a significant share of the Saudi full service restaurants market and it has maintained its dominance of western style casual dining market. U.S. casual dining restaurants such as Chili's, Fuddrucker's, TGI Fridays, Applebee's, Sizzler, On The Border are very popular and located in all major Saudi Arabia. These restaurants are frequented by Saudi families and are considered a form of entertainment. They provide dine-in restaurant service, an extensive menu and are more expensive than fast food chains. The popularity of American style food outlet is evidenced by the recent opening of the U.S. food chain Longhorn steakhouse and Red Lobster restaurant in Riyadh.

Company profiles of major Casual Dining Restaurants in the Kingdom:

- **Applebee's** was brought to Saudi Arabia in 2003 by Arabian Entertainment Co. Ltd (Tarfeeh), a subsidiary of Saudi Economic Development Company (SEDCO), which is one of the largest business conglomerates in Saudi Arabia. With 17 outlets in major cities of the Kingdom, Applebee's is the largest and fastest growing casual dining restaurant chain in the country. The Tarfeeh holds franchising right for the whole Kingdom. In addition to Applebee's, Tarfeeh owns and runs another eight restaurants including China Gate self-developed casual dining restaurants that offer buffet style inter-continental cuisines. Tarfeeh operates three Romano's Macaroni Grill in Saudi Arabia, a casual dining restaurant chain specializing in Italian-American cuisine.
- **The Steak House** is a Saudi brand casual restaurant chain that started operation in 1992. It serves American style steaks, sandwiches, soup, salad bar and desserts. The firm is owned by Alfa Operation Services Co, a subsidiary of .Al Faisaliah Group, a major diversified conglomerate that owns, among other things, Al-Safi Dairy Farm, holder of Guinness World Records as the largest integrated dairy farm in the world. There are currently 17 Steak House restaurants in major Saudi cities. In addition to Steak House, Alfa Operation Services Co. owns and runs four Piatto restaurant (Italian casual dining), Fine Grill and Bronto Piatto (another Italian casual restaurant).
- **TGI Friday's** is operated by Al- Ahlia Restaurants Company, a subsidiary of the Kuwaiti Food Company Americana. In 2013, there are 10 TGI Friday's restaurants in Jeddah, Riyadh and the

Eastern province. In addition to TGI Friday's, Al- Ahlia Restaurants Company runs several American fast food and casual restaurant chains such as KFC, Hardee's, Krispy Kreme Doughnuts, Longhorn Steakhouse, Red Lobster and Olive Garden to Saudi Arabia in early in 2014.

- **Chili's'** is operated by the Arabian Food Supplies (AFS). AFS is a subsidiary of Al Naghi Group, a large diversified conglomerate with business activities that include dealership of luxury automobiles such as Rolls-Royce, BMW, Jaguar, and Land Rover. Currently, there nine Chili's restaurants in Saudi Arabia. In addition to Chili's, AFS operates nine Fuddruckers and one On the Board restaurants in the Kingdom. The firm has franchise rights to operate Chili's in Saudi Arabia but it's the exclusive franchisee Fuddruckers and On the Border restaurants in Saudi Arabia, Egypt and the UAE.
- **Tony Roma's** was brought to the Saudi market in 2007 by Food and Entertainment Co., LTD, a division of Fawaz Al Hokair Group. Al Hokair is one of the largest real estate, retail and mall developers in Saudi Arabia. Currently, Food and Entertainment Co., LTD operates four Tony Roma's restaurants in addition to operating a number of other dining concepts including 126 Cinnabon, 24 Seattle Best Coffee, nine The Pizza Company, three Vapiano (Italian) and four Al Balad (Arabic style casual dining).

III. COMPETITION

U.S. faces fierce completion in the Saudi food import market from major suppliers such as Brazil, India, Netherlands, China, Thailand, Turkey, France, Belgium, New Zealand, other EU countries. The catering and restaurant subsectors are very price sensitive, due to the stiff completion that prevails in the market. Catering companies and fast food chains compete on both prices and quality. They seek suppliers that provide good quality products at most competitive prices. The table below illustrates quality and price competitiveness from the major suppliers' countries, which have affected U.S. market share in many high value products in the Saudi market.

Table 5: Saudi imports of select food products by major supplier in 2014

Product Category and Total Import Value	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Dairy Products \$1.8 billion	New Zealand (26%), U.S. (10%), Netherlands (9%), France (7%), Bahrain (5%) Australia (5%)	Price competitiveness and quality are the key factors in making purchasing decision in this market. New Zealand has been the dominant export of cheese to Saudi Arabia.	Some local food processors imports cheese blocks for repacking into smaller consumer-sizes for sale in the market.
Frozen Broiler Meat \$1.5 billion	Brazil (81%), France (15%), U.S. (2%)	Brazil is the most price complete supplier that also meets food service size, moisture and fat content requirements.	Local broiler meat production accounts only for 47 percent of total consumption.
Fresh Fruit \$690.6 million	Egypt (20%), South Africa (13%), India (8%), Turkey (7%), U.S (5%), Chile (5%)	Price and availability are the major criteria when importing fresh fruit.	Saudi Arabia produces very limited fruits such as citrus, grapes, and pomegranate.
Processed Vegetables \$527.9 million	Egypt (14%), Netherlands (17%), U.S. (12%), China (10%), Belgium (10%), Spain (10%)	U.S. exports of these products have been steadily increasing in recent years due to its price competitiveness and quality	Some local food processors imports blocks of frozen vegetables for repacking into smaller consumer-size containers for sale in Saudi market.
Beef \$501.7 million	India (50%), Australia (32%), Pakistan (7%) New Zealand (5%), Jordan (2%), Canada (1%)	India and Australia benefited the most from SFDA beef import bans placed on U.S. and Brazilian beef imports.	No significant beef production in the country.
Vegetable Oils, excluding palm oil \$429.3 million	U.S. (23%), Ukraine (15%), Oman (17%), Malaysia (11%), Spain (7%), Turkey (5%)	U.S. has been the leading corn oil supplier to Saudi Arabia for the past decades. Recently, however, Ukraine and Oman have been increasing their market shares. Oman does not produce its own corn oil but imports in bulk, retail pack and re-export mainly to the GCC countries. Indonesia is the dominant supplier of	Saudi Arabia does not produce cooking oil. Saudi companies such as SAVOLA Oil Company imports refined palm and corn oil and retail pack them for local distribution.

		palm oil to Saudi Arabia.	
--	--	---------------------------	--

Table 5 continued. Saudi imports of select food products by major supplier in 2014

Product Category and Total Import Value	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Snack Foods \$355 million	Italy (20%), Turkey (114%), Poland (11%), China (9%) Netherlands (6%), U.S. (4%)	EU countries to dominate the snack food sector due to products quality and competitive prices,	Local snack food producers depend on imported raw materials and they do not pay import tariff on food products imported for reprocessing.
Fish and Seafood Products \$327.7 million	Thailand (32%), Yemen (25%), Indonesia (17%), India (13%), Norway (5%), Oman (5%) U.S. (1%)	Thailand has been the dominant and the most price competitive supplier of fish and seafood supplier to Saudi market.	Saudi Arabia has recently become a significant exporter of high quality commercial produced red sea shrimp to EU, U.S. and Japan.
Fresh Vegetables \$283.4 million	Egypt (32%), Jordan (29%), China (12%), Netherlands (8%), India (5%) and U.S. (2%)	Egypt has been gaining market share in the fresh vegetables market due to its price competitiveness compared to other suppliers.	Saudi Arabia is 85 percent self-sufficient in fresh vegetables production. Prices of locally produced vegetables are usually higher than imports.
Spices \$259.3 million	India (32%), Guatemala (28%), China (17%), Pakistan (8%), Singapore (4%), U.S. (2%)	Indian, Guatemala and Asian countries have been the traditional suppliers of spices to Saudi Arabia because availability of abundant variety of spices at competitive prices.	Saudi Arabia does not produce spices. It depends on imports meet its spices need.
Processed fruit \$194.5 million	India (23%), China (11%), U.S. (12%), Thailand (8%), Egypt (7%), Turkey (7%), Canada (6%)	U.S. exports of these products have been steadily increasing in recent years due to its price competitiveness and quality.	Some local food processors imports blocks of frozen fruit and vegetables for repacking into smaller consumer-size containers for sale in Saudi market.
Condiments & Sauces \$193.5 million	Indonesia (32%), U.S. (26%), Oman (18%), U.K. (6%), Egypt (4%),	Indonesia has been the largest Condiments & Sauces supplier to Saudi Arabia because of its competitive prices. The U.S. is known as the supplier of high qualities sauces in Saudi Arabia.	Local production in this group is limited mostly to ketchup processing and its quality has been improving.

Tree Nuts \$168.6 million	India (34%), United States (42%), Turkey (7%), Sri Lanka (5%), China (3%)	Almonds accounts for the largest percentage of tree nuts imported to Saudi Arabia. The U.S. has been a dominant supplier of almonds to Saudi Arabia for the past several years.	No local production of tree nuts.
---------------------------------	---	---	-----------------------------------

SECTION IV. BEST MARKET PROSPECTS

The Saudi HRI sector is constantly seeking suppliers for high quality and competitively priced of high value and intermediate food products. Products of interest include processed fruits and vegetables, French fries, beverages, beef, poultry meat (whole birds and chicken parts), rice, snack foods, sauces, mayonnaise, cereals, condiments, jams, salad dressings, gravies, chips, dried beans, peas, soups, diet foods, seasonings, cooking oil and nuts particularly almonds and pistachios.

There is a growing demand for dietary and health food, particularly by catering companies that serve meals for upscale institutions and hospitals. Saudi Arabia has one of the highest rates of diabetes in the world, and obesity is widespread in the population.

Banned Products

For religious reasons, Saudi Arabia bans imports of alcoholic beverages, pork meat, and foodstuff ingredients or additives that contain pork products, including pork fat, lard and gelatin. It is important to note that all meat products exported to Saudi Arabia must meet the Halal requirements, slaughtered according to the Islamic rituals.

SECTION V. POST CONTACT

1. Post Coordinates

Office of Agricultural Affairs
American Embassy, Riyadh, Saudi Arabia
P.O. Box 94309, Riyadh 11693
Tel: 966-11-488-3800 Ext. 4351
Fax: 966-11-482-4364
Internet E-Mail Address: Agriyadh@fas.usda.gov

2. OAA Riyadh Reports

Several reports on the Saudi food industry published by the Office of Agricultural Affairs in Riyadh can be accessed by visiting FAS website at the link below:

<http://gain.fas.usda.gov/Pages/Default.aspx>