

Establishing a functional food business in Saudi Arabia

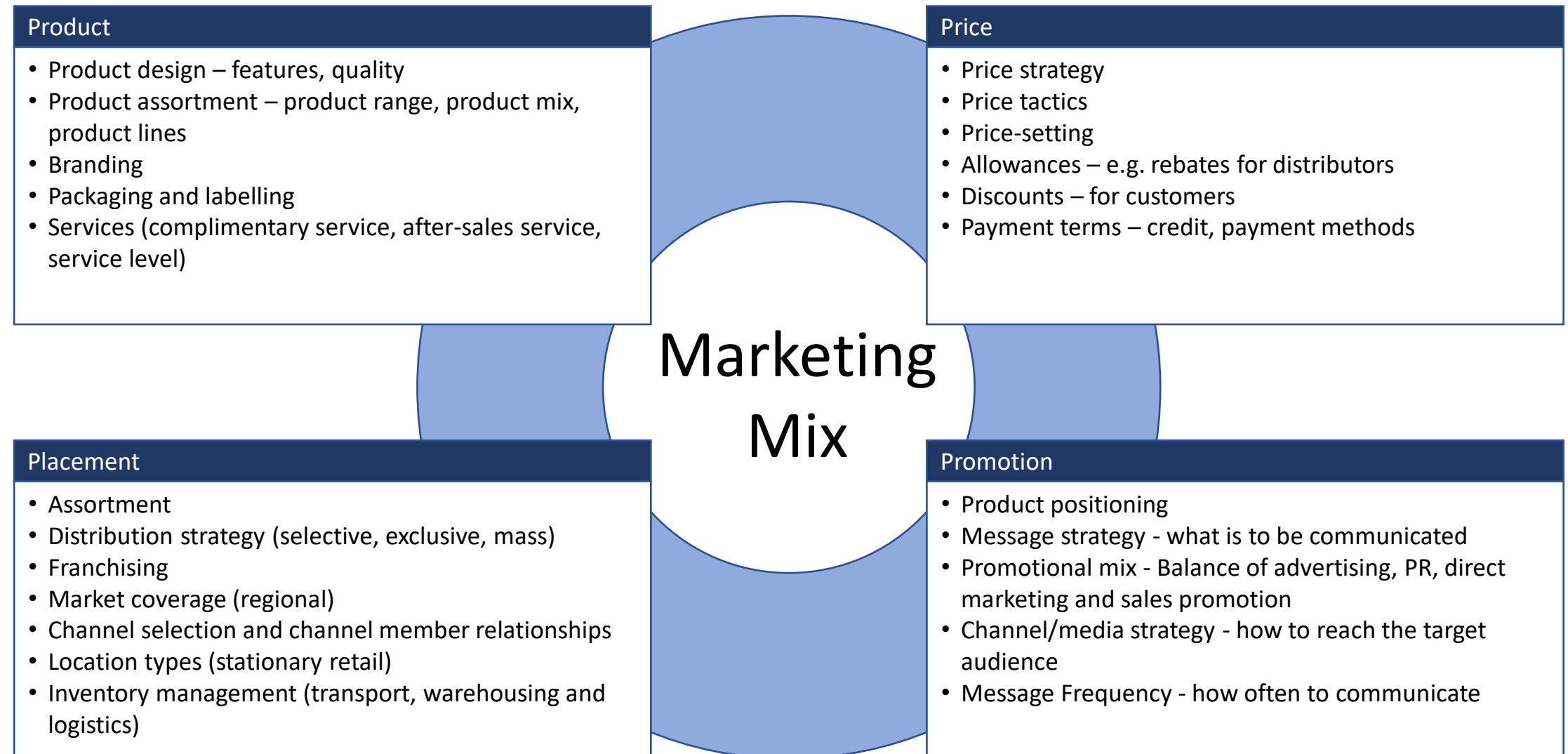
How to design a market entry strategy

Jeddah, October 21st, 2020

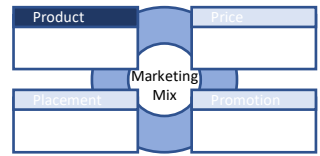
The global functional food market is rapidly growing, with Saudi Arabia's large potential so far mainly untapped

- The global functional food market is expected to grow at about 5% p.a. over the coming years. Asian markets, including Saudi Arabia, are expected to **grow above average at about 7..8% p.a.**
- So far the KSA market is covered by
 - Large international players
Marketing efforts are low. They do not offer products, customized to the regional market, and do not target specifically high-potential consumer segments. Main distribution channels are large supermarkets. The price level is high, exceeding prices in Europe and the USA 3..4-fold
 - Small niche players
Marketing mostly through social media, but often in an amateurish way. Focus on healthy products, sometimes with domestic ingredients. Main distribution channels are organic food outlets, and online order. Price level is high, benefiting from the general high price level in the organic food segment
- The KSA market attractiveness is based on
 - Still **rapidly growing population** with a high share of young consumers
 - An **increasing interest in healthy nutrition**, to cope with widespread health problems, mostly related to “life-style diseases” (Obesity prevalence 35%, diabetes prevalence 18%, high blood pressure prevalence 23%)
 - **Changing lifestyles** with potential target groups being, e.g.
 - **Regular exercisers** (power food during sports activities)
 - **Young urban professionals, especially women** (healthy snacks and organic food for a quick lunch at the workplace)
 - **Medium-aged people** becoming conscious about their lifestyles (supporting diets)
 - **Teenagers** (cool food)
 - So far, **low competition intensity** with a generally high price level and low consumer price sensitivity
 - Ability to **reach 80% of the population by just covering 4 main urban centers**

The Marketing Mix sets the framework for launching the product

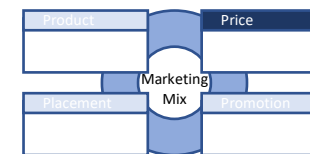


A "pure" product, with potential to be developed into a product family, manufactured fully outsourced for a targeted, low-risk market entry



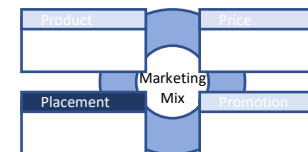
Topic	Option	Opportunities	Risks	To be verified
Product design (recipe, quality)	Position as "pure": few high quality ingredients (with provenience indicated), no sugar added	Unique selling proposition, 100% Saudi, targeting premiums consumers	Possibly high cost, shortage of ingredients, relevant market segment might be too small	Market size, price sensitivity
	Focus on affordability, good value for money	Targets low budget consumers	No unique selling proposition	
Make vs. buy	Production fully outsourced	Rely on proven production know-how, short ramp-up time, low fix costs, delivery to outlets or online order directly from producer	Disruption of delivery chain (e.g. Corona), customs issues for production abroad, no direct control of quality, product modifications take time	Potential suppliers, price ranges for given quality levels and batch sizes
	Production outsourced, packaging/commissioning/distribution in-house	Controlling the distribution chain	Complexity level of logistics	Potential suppliers, price ranges for given quality levels and batch sizes, cost of packaging equipment
	Set up own production and distribution facilities	Quick adjustments to market requirements, creating Saudi jobs (government subsidies?)	Lack of know-how, high start-up costs (not only for the product but also packaging), high initial capital intensity (financial risk)	Cost of a production/packaging line, availability of skilled labor
Product assortment	Single product	Testing the market	Customers want choices (flavors), high probability of a flop (single shot)	Customer preferences for flavors (e.g. sales data from supermarkets for existing product lines)
	Product line (same product, different tastes)	Testing the market, cover different tastes, diversifying risk	Somewhat higher complexity, losing focus, cannibalization effects	Best practice of competitors
	Product family (different products under one brand umbrella)	Efficient advertising (spillover effects), people like to stick to a brand, complementary products possible (e.g. bar with fitting drink)	High complexity from the very beginning, lack of focus - losing critical mass within individual segments, one flopping product line might damage reputation of other lines	Best practice of competitors
Branding	Creating the message and decide how to convey the USP	Creating a product story, Establishing the brand as its own category (e.g. "to Kaercher" as the synonyme for cleaning something with a high pressure water hose)	Having just another BS slogan	Best practice of competitors, list of PR agencies which might help, cost of a branding campaign
Packaging and labelling	In line with the brand message of "purity" (e.g. white as the dominating color, contrasted by green)	Works as an eye catcher and the most important point-of-sales marketing measure	A too avantgardistic design might not work, a too conservative design does not differentiate the product from the competition	Best practice from other consumer goods (e.g. the design of Apple packaging with white color dominating)
Services	App, connected to product via scannable code	Increase reach in an social media rich environment, build customer base for direct marketing (incl. influencers)	Loose of focus	Best practice

Price should be established at the high end of the range in line with the product message



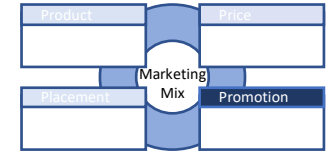
Topic	Option	Opportunities	Risks	To be verified
Price strategy	Position in the premium price segment	The main target group might show a very low price sensitivity, a high price might even emphasize the claim of being a top-quality brand	In the mass distribution channels (supermarkets), customers might perceive the energy bar product range as	List of comparable products with prices and value proposition (ingredients)
	Competitive pricing	Existing products provide a comfortable price umbrella with prices for energy bars exceeding the international price level by 200-400%	Using the price as a USP would contradict the very positioning of the brand as premium	
Price-setting	Unified prices across all channels	Simplified pricing	Some loss of extra margin	
	Prices differ by channel	Allows to achieve extra margin	Introduces additional complexity	
	Dynamic pricing for online channels			
Allowances – e.g. rebates for distributors	TBD			
Discounts – for customers	TBD			
Payment terms – credit, payment methods	TBD			

Pricing is an integral part of the business plan. However the business plan can only be drafted when there is clarity about the product (specifications and positioning)



Start in one local market (Jeddah or Riyadh) in selected channels, to test and improve the business model, than expand regionally and channel-wise

Topic	Option	Opportunities	Risks	To be verified
Market coverage (regional)	Focus on one local market (to test and refine model), then expand to other markets	Mitigating risk by using a test market, using local networks	In other regional markets competitors might copy the idea and get first mover advantage	Market size by customer segment
	Start in all KSA main markets (top cities) simultaneously	Suppressing potential competitors by quickly reaching critical mass	Higher upfront investment, possible failures are multiplied	Market size by customer segment
Distribution strategy	Exclusive	By giving distributors exclusivity rights, their interest in a product success increases	Dependency on few distributors	
	Selective	Distributors have to fulfill certain criteria to be in line with the brand message	Loss of market coverage	Criteria catalogue
	Mass	Higher market penetration	Using low-reputation channels might damage the brand image, low margins in mass retail channels	
Channel selection	Large supermarkets	Easier to place the product in the high-price range	Probably listing fees and pressure prices (high bargaining power of big supermarket chains)	List of supermarket chains
	Small/medium supermarkets through wholesalers	Higher market penetration	Additional intermediary (wholesale) costs profit margin, no full control of the distribution chain	
	Fitness studios	High concentration of potential customers	Dealing with a multitude of outlets	List of fitness studios
	Pharmacies	Brand gains credibility as health food, high-price environment	Dealing with big chains having high bargaining power	List of pharmacies (chains)
	Schools	High number of potential customers, might require a different positioning (brain food)	Bad publicity (accusations for being unhealthy, taking money away from poor kids)	Check with MoE, whether this is possible, Selectively approach private schools
	Online	Typical customer most likely has affinity for online shopping, lower distribution costs (no intermediaries)	IT infrastructure, fulfillment	Existing shop concepts and ready shop solutions (availability and costs)
Inventory management (transport, warehousing and logistics)	Inhouse, either centralized or decentralized	Tighter control on logistics, buffering of stock	Additional fix costs	Potential cost of an inhouse solution
	Outsourced	Lean business model, product is delivered from the producer directly to the outlets/online consumers	Reliability of fulfillment	Are there examples that this is successfully done in the KSA? By whom?



A traditional packaging, yet with a eye-catcher design, with focus on online marketing to ramp up awareness quickly, should be to most cost efficient way for market entry

Topic	Option	Opportunities	Risks	To be verified
Packaging - physical	Traditional packaging (flow wrapping for individual bars, overwrapping for boxes containing 10-20 bars)	Can and should be done by the producer (if outsourced)	Low differentiation ("Just another energy bar")	Cost of packaging
	Differentiation through different format, packaging material, re-sealable	Different format is technically easy to achieve (e.g. quadratic Ritter Sport chocolate "Quadratic, practical, good!")	Customer acceptance has to be proved	
Packaging - design	Transparent	Suggests openness and transparency on the ingredients	Product might look less sophisticated ("messy structure"), shelf life restrictions (exposure to UV light)	Best practice of competitors
	Colored	Transmit the message of "purity". White color with green/gold accents?	Insufficient differentiation, a too avantgardistic design might make customers perceive the product as something else rather than an energy bar	
Online marketing	Social Media campaign	Main target groups with already high social media affinity easy to reach at low cost	Few, but if not properly done, creates frustration on the customer side (web site "under construction", online shop not working, links leading nowhere)	
	Influencers			
	Search engine optimization			
Product placement	TV	Make the product visible in TV productions	Cost	Verify whether this is allowed in KSA
	Sponsoring	Apart from professional influencers, e.g. distribute the product at events (concerts, cinemas, sports events)		
	Distribution of samples (e.g. at the Corniche, in malls)	Increase awareness quickly		
Guerilla Marketing	TBD	Low-cost advertising with potential high impact	Possible legal risks (e.g. putting advertising in public places without explicit consent)	Are there agencies providing this service?

Some general considerations to ensure success while mitigating risk

Topic	Consideration	Recommended approach
Market still evolving with few data on consumers available	While the business/product idea is simple and proven, it is not clear what might be a suitable differentiator towards competition, consumer studies covering Western countries might not be valid to deal with the local market	Primary research (customer interviews)
Complexity	Complexity has to be kept down as much as possible at the initial stage	<ul style="list-style-type: none"> Hire external know how (e.g. operations manager from a similar business) Outsource wherever it makes sense
Capital at risk	While the business idea is proven, with a substantial market potential, an execution risk remains	Start with <ul style="list-style-type: none"> One regional market (Jeddah or Riyadh) Selected distribution channels Outsourced production (possibly also logistics) Mainly online-based marketing To <ul style="list-style-type: none"> Refine product and marketing Then <ul style="list-style-type: none"> Roll out KSA/region-wide
Define Key Performance Indicators	There must be a clear understanding what can, and has to be expected from the investment	Define few KPIs Have an exit strategy in case the project fails, with a clear cut-off point
Prototype	Without product examples it is difficult to talk to potential distributors, and customers	Define product specifications (including alternative solutions), find a small scale producer who can produce small batches of the product virtually over night, test prototypes through selected channels

Suggested Road Map

