منشآت
monsha'at
الهيئة العامة للمنشآت الصغيرة والمتوسطة
Small & Medium Enterprises General Authority

Study on the Current State of Franchising in Saudi Arabia, 2020

Contents

Introduction:

Franchise Center

Based on the Council of Ministers Resolution No. 122 dated 9/2/1441 AH, the Franchise Centre was established under the umbrella of the Small and Medium Enterprises General Authority (Monsha'at). The Centre assumes several tasks and powers, including:

- Setting the necessary conditions for practicing brokerage and mediation activities in franchising.
- Developing programs and organizing events to raise awareness of franchising activities, relationships, and opportunities.
- Preparing brochures, educational materials related to franchising.
- Conducting studies, research, gathering information and statistics related to franchising.
- Educating franchise practitioners on relevant laws, regulations and decisions.
- Identifying obstacles facing franchise activities to be discussed with relevant governmental entities and developing appropriate solutions.
- Resolving disputes that may arise between franchisees and franchisors amicably, in coordination with other specialized centers.
- Any other tasks assigned to it by Monsha'at Board of Directors.

Study Rationale

From this perspective, the Centre carries out the tasks and powers assigned to it by the Council of Ministers' decision. As such, it needs to engage specialized entities and consulting firms to provide these services.

Conducting a study on the current state of the franchise sector in Saudi Arabia is the main starting point that can provide a comprehensive understanding of the Centre's services and how to achieve its main objectives.

Current State of Franchising in Saudi Arabia

The current state indicates that there is no recent study on the Saudi market that shows the numbers, statistics, and percentage of franchises in each sector. The last study was conducted in 2016.

Based on the outputs of the Franchise Initiative to complete a study of the Saudi market to analysis the state of brands in 2021, this study analyses the domestic market in order to derive statistics, numbers, and put in place solutions and recommendations necessary to develop the franchise industry in the Kingdom.

Study Objectives

Conducting research, gathering statistics and information related to franchising.

Understanding the current market situation, identifying obstacles, and developing solutions for improvement, as well as benchmarking global franchise best practices and making recommendations to elevate the services provided by the Franchise Centre.

Implementing one of the Franchise Initiative's outputs to complete a study of the Saudi market and analysis the state of brands in the franchise industry in early 2021.

Study Preparation Methodology

Data and Information Sources

The following benchmark references were adopted that are relevant and closely related to the topic of franchising, in addition to economic reports issued by reputable entities in Saudi Arabia and globally:

Academic studies

Academic studies, research, and university theses published by reputable and prestigious academic sources.

Official reports

Reports and studies issued by relevant governmental or international organizations related to franchising.

Interviews

Personal interviews with staff and officials at relevant units, companies, and entities.

Questionnaires

A survey questionnaire was designed to collect data from international and local brands.

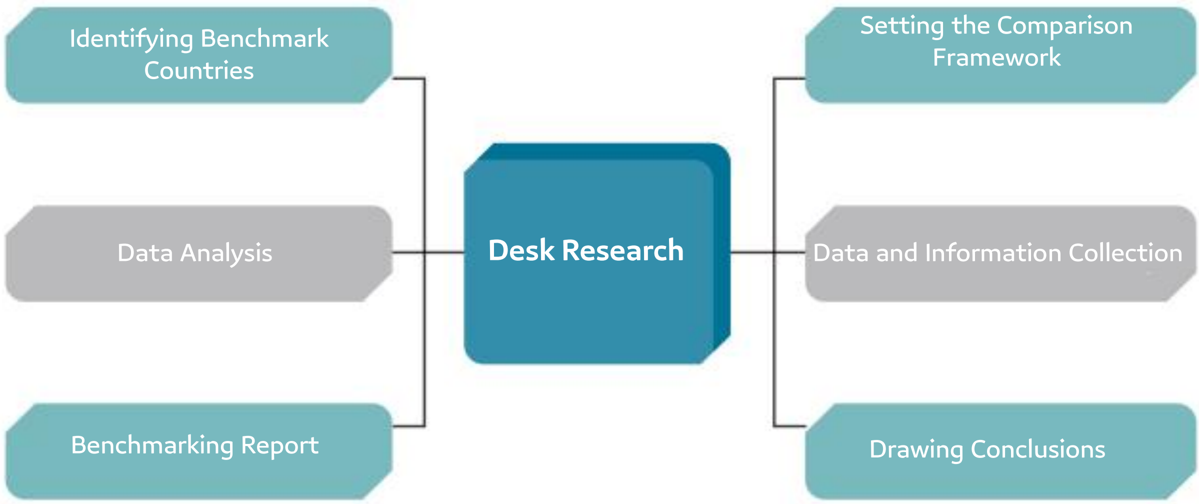
Information centers and databases

Data and information available to the consultant as well as Monsha'at.

Observation

Observations and inferences made during the study stages by field researchers, the consulting team, or Monsha'at team.

Benchmarking Study Methodology



Benchmarking Study of International Best Practices

An initial list of 21 countries has been identified (most of which are from the G20, in addition to some countries that are culturally and geographically similar to the Kingdom).

Countries

No.	Country	Code	No.	Country	Code	No.	Country	Code
1	الأرجنتين	ARG	8	إندونيسيا	IDN	15	كوريا الجنوبية	ROK
2	أستراليا	AUS	9	الهند	IND	16	السويد	SWE
3	برازيل	BRA	10	إيطاليا	ITA	17	تركيا	TUR
4	كندا	CAN	11	اليابان	JPN	18	الإمارات العربية المتحدة	UAE
5	مصر	EGY	12	ماليزيا	MYS	19	المملكة المتحدة	UK
6	فرنسا	FRA	13	نيوزيلاندا	NZ	20	الولايات المتحدة	US
7	ألمانيا	GER	14	سانغفورة	SG	21	جنوب إفريقيا	ZAF

Benchmarking Study Methodology

Benchmarking Study of International Best Practices

A benchmarking matrix consisting of four main criteria has been designed as follows:

Current State of Franchising:

- Total international and local brands.
- Total franchise units.
- Contribution to workforce.
- Growth rates.

Economic Factors:

- GDP.
- Economic growth rate.
- Total workforce.

Data & Information Availability and Diversity:

- Availability of reliable official data.
- Diversity and adequacy of data.
- Representation of suitable geographic
- or economic group.

Demographic Factors:

- Geographical area.
- Total population.
- Demographics.

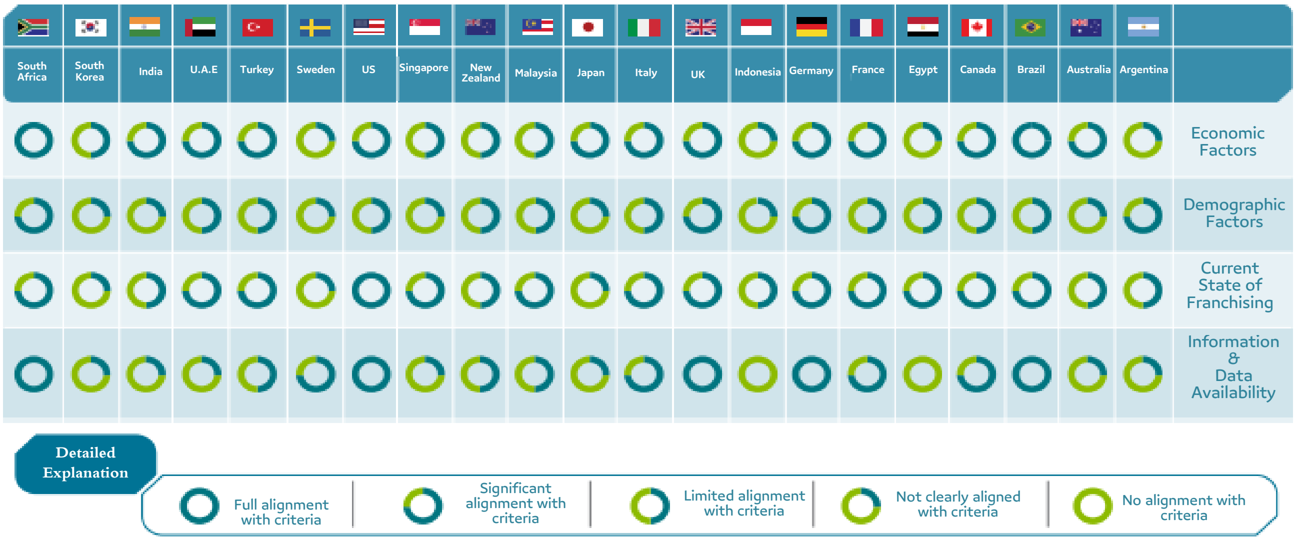
Relative Weight	Criterion	No.
20%	Economic Factors	1
15%	Demographic Factors	2
30%	Current State of Franchising	3
35%	Data & Information Availability and Diversity	4
100%	Total	

Benchmarking Study Methodology

Benchmarking Study of International Best Practices

The criteria matrix has been applied to the total countries (21), to measure their degree of alignment with the benchmarking criteria.

21
Country



Based on the benchmarking matrix, (6 countries) countries have been selected, with a developed franchising sector, that provide sufficient economic and geographic diversity for benchmarking.

6
Country

GDP (trillion USD)	Population (million)	Area (sq km)	Country	No.
19,49	332,6	9,934,000	US	1
2,92	56,1	243,610	UK	2
4,4	80,5	375,022	Germany	3
3,2	211,7	8,515,000	Brazil	4
0,76	56,5	1,219,000	South Africa	5
0,51	29,6	329,750	Malaysia	6
0,79	34,2	2,150,000	Saudi Arabia	#

Benchmarking Study Methodology

Benchmarking Study of International Best Practices

There are 8 main indicators used globally to benchmark the status and growth of the franchising sector in any country:

Indicators

1. **Total number of** local brands in the franchise sector
2. **Total number of** foreign brands in the franchise sector
3. **Total number of brands** in the franchise sector
4. **Total number of operating** franchise units
5. **Total number of employees** in the franchise sector
6. **Total annual revenues** of the franchise sector
7. **Annual growth rate** in sector revenues (%)

Benchmarking Study Methodology

Benchmarking Study of International Best Practices

The global franchising industry is broadly categorized into three main sectors:

3

- Service Sector
- Retail Sector
- Food & Beverage Sector

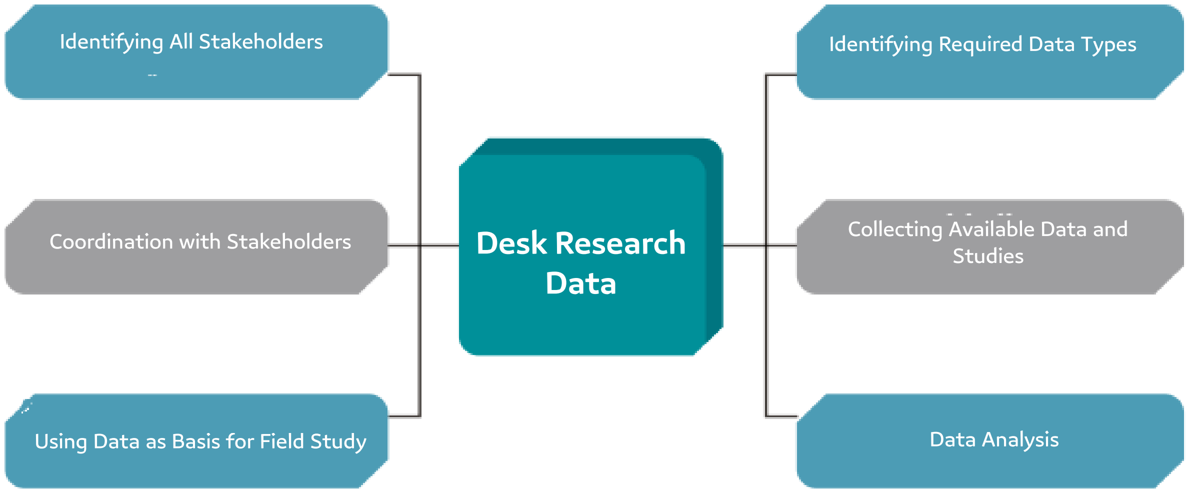
The sub-activities vary to cover around 15 common sub-sectors globally.

15

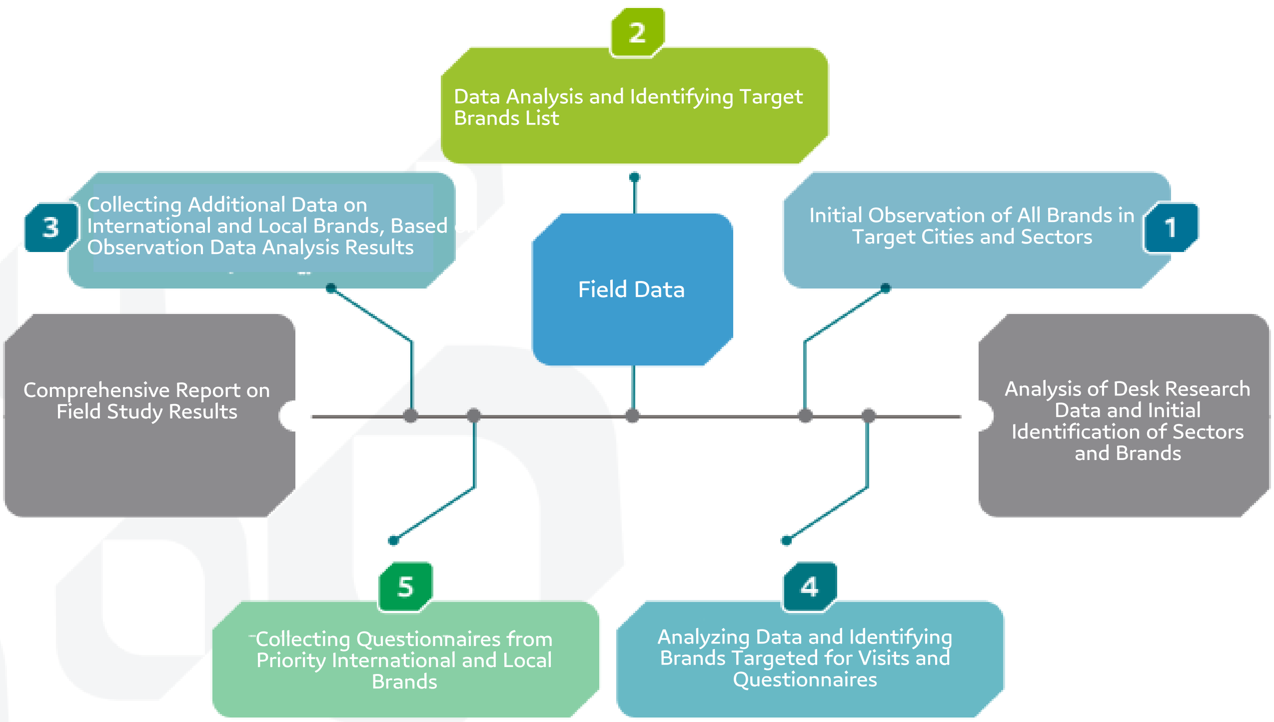
Sub-activity

- Automotive Services
- Technology
- Business Services
- Retail Trade
- Food & Beverage
- Transportation & Logistics
- Healthcare Services
- Elderly Care
- Education & Training
- Childcare Services
- Home Services
- Household Production and Home Activities
- Entertainment Services
- Fitness
- Beauty & Skin Care

Saudi Current State Study Methodology



Study Implementation Mechanism



Saudi Current State Study Methodology

Field Study

Brand Data Collection Stages

1. Preparation for Field Survey
2. Observing All Brands
3. Collecting Additional Brand Information
4. Collecting Questionnaire Data

Questionnaire Design and Collection Stages

Determining Questionnaire Question Types

Designing Questionnaire Methodology

Designing Questionnaire Questions

Questions should be sequential and interconnected, starting from simple to complex, and from general to specific

Examining and Reviewing the Questionnaire

The examination involves two aspects:
First: Wording and spelling
Second: Questions and their relevance to objectives

Launching the Questionnaire

Questionnaire instructions and guidelines and training field researchers

Kingdom Survey

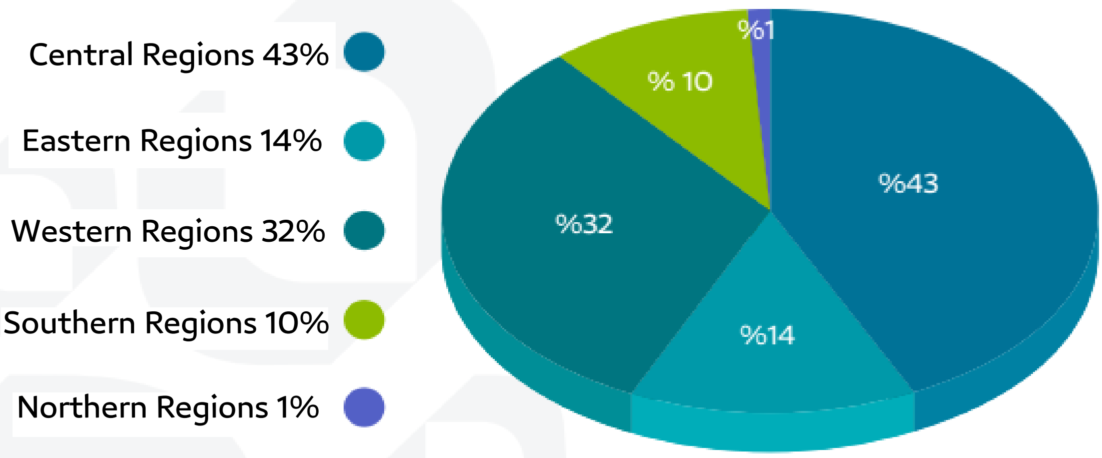
Observing Brands and Collecting Data

Study Sample Data

Field Observation of Brands

A field observation was carried out in 12 cities, covering most malls and main streets to survey branded units, (Around 91 malls). About (5,263) franchised and non-franchised units were observed.

Number of observed units (with brand duplication)	Number of malls, plazas and main streets	City	No.
1551	21	Riyadh	1
268	6	Kharj	2
462	11	Buraydah, Unaizah and Bukayriyah	3
352	9	Dammam	4
97	5	Jubail	5
251	5	Khobar and Dhahran	6
232	7	Abha	7
304	5	Khamis Mushait	8
214	2	Makkah	9
1167	12	Jeddah	10
254	7	Medina	11
61	1	Tabuk	12
5263	91	Total	



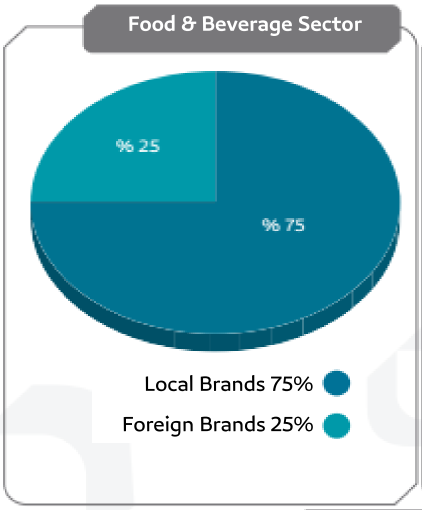
Study Sample Data

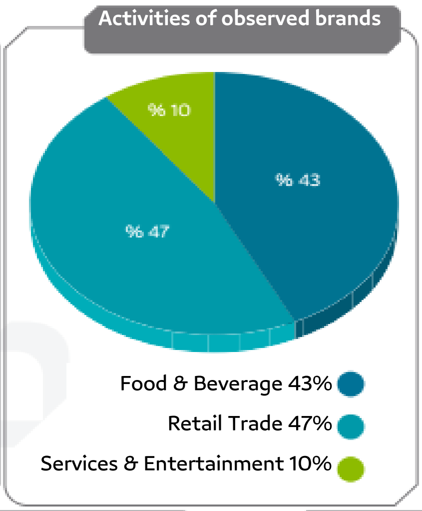
Field Observation of Brands

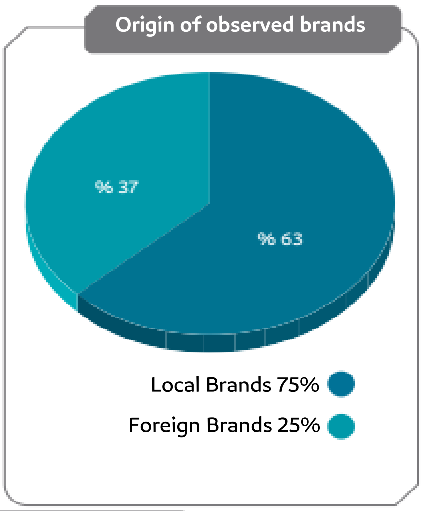
Duplicates were filtered out, reaching (1465) brands with branding elements (identity and brand).

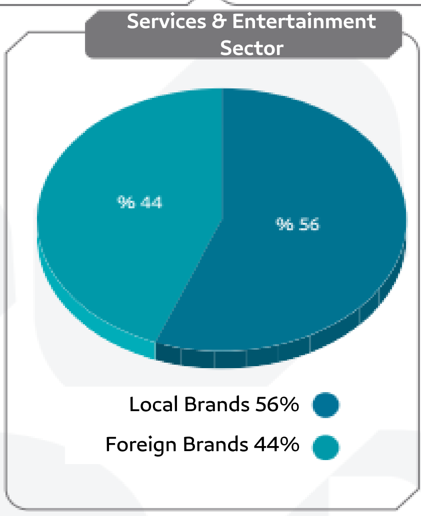
1465
Brands

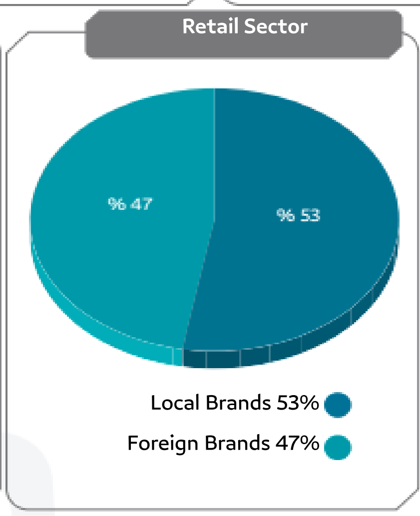
Total Brands	Foreign brands	Local brands	Main activity	
638	162	476	Main activity	1
687	323	364	Retail Trade	2
140	62	78	Services & Entertainment	3
1465	547	918	Total	









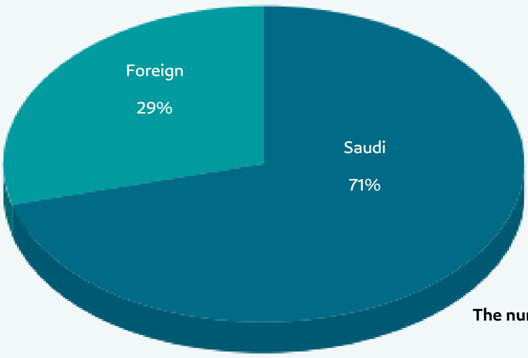


Study Sample Data

Field Observation of Brands

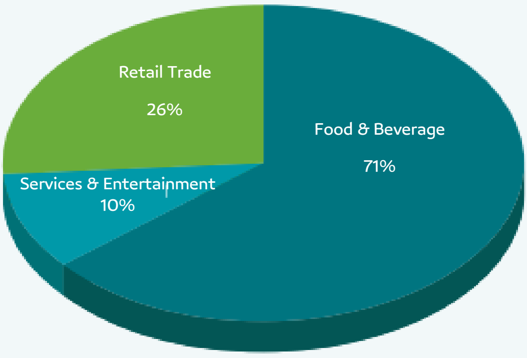
The questionnaire was collected from a sample of 113 brands, across all regions of the Kingdom, covering most sectors.

113
Brands

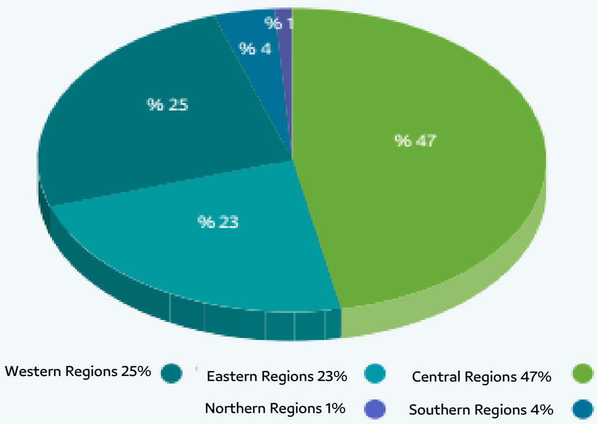


Brand Origin	
80	Saudi Brand
33	Foreign Brand
113	**Total Brands**

The number of questionnaires was affected by COVID-19 pandemic and difficulties in getting responses from brands due to precautionary measures.



Trademark activity	
73	Food & Beverage
29	Retail Trade
11	Services & Entertainment
113	**Total**



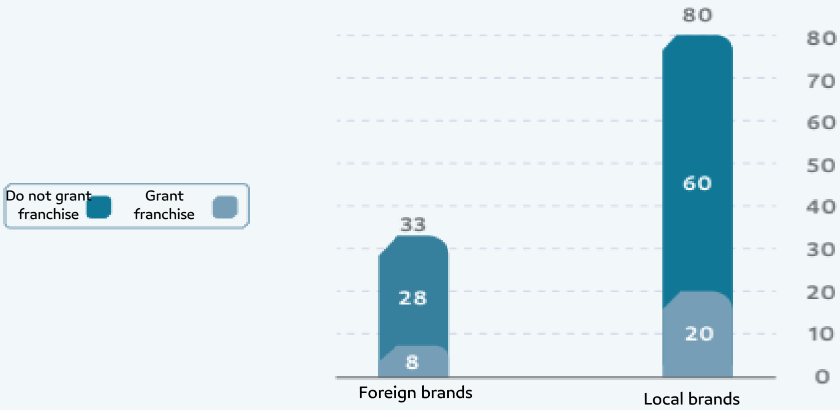
Company Headquarters	
Number of Brands	Region
53	Central Regions
28	Western Regions
26	Eastern Regions
5	Southern Regions
1	Northern Regions
113	**Total Brands**

Study Sample Data

Field Observation of Brands

Partial Franchising

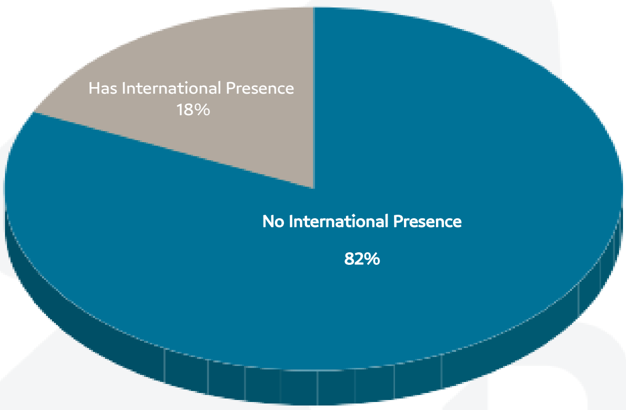
Total	Foreign	Local	Franchising
28	8	20	Grant (partial) franchise
85	25	60	Do not grant franchise, self-expanding
113	**33**	**80**	**Total**



- The sample is diverse to provide adequate representation of all brands (local and foreign)
- The percentage granting partial franchising is very low, for both foreign and local brands

International Presence (for Saudi brands)

Total	No International Presence	Has International Presence
80	66	14



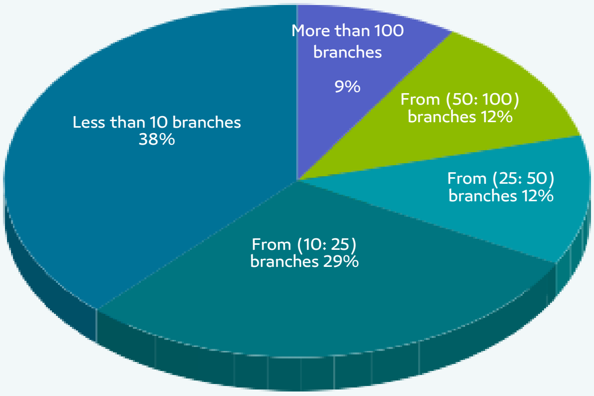
- The study covered a group of local brands with international presence, around (18%) of the studied sample size (not necessarily within franchising)

Study Sample Data

Field Observation of Brands

Total number of branches or units (brand)

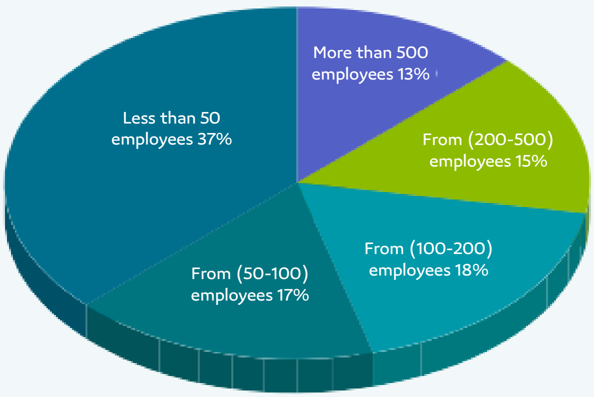
Total	Less than 10 branches	(10 : 25) branches	(25 : 50) branches	(50 : 100) branches	More than 100 branches
113	43	33	14	13	10



- All brand segments have been covered, in terms of size of branch chain, to represent the entire sector in a balanced manner.

Total number of employees (brand)

Total	Less than 50 employees	(50-100) employees	(100-200) employees	(200-500) employees	More than 500 employees
113	42	19	20	17	15



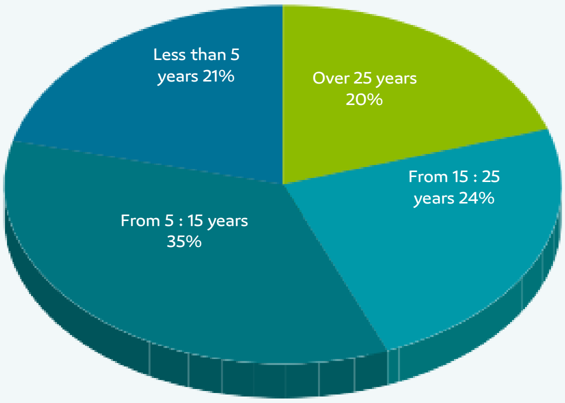
- All brand segments have been covered in terms of total brand employment size

Study Sample Data

Field Observation of Brands

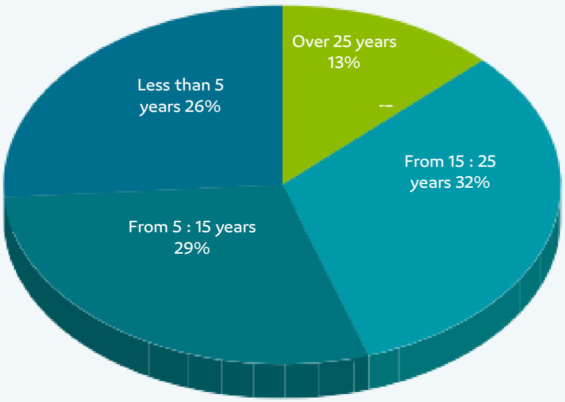
Brand longevity in the Saudi market (total brands)

Total	Less than 5 years	(5: 15) years	(15: 25) years	More than 25 years
113	24	39	27	23



Brand longevity in the Saudi market - foreign brands only

Total	Less than 5 years	(5: 15) years	(15: 25) years	More than 25 years
33	10	9	10	4



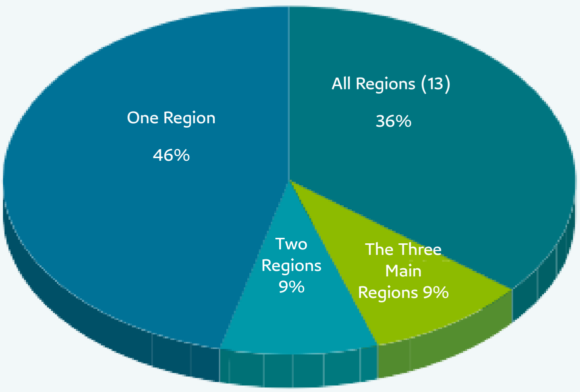
- All segments of marks have been covered, in terms of brand longevity in the Saudi market (for both local and foreign brands).

Study Sample Data

Field Observation of Brands

Geographic presence within the Kingdom

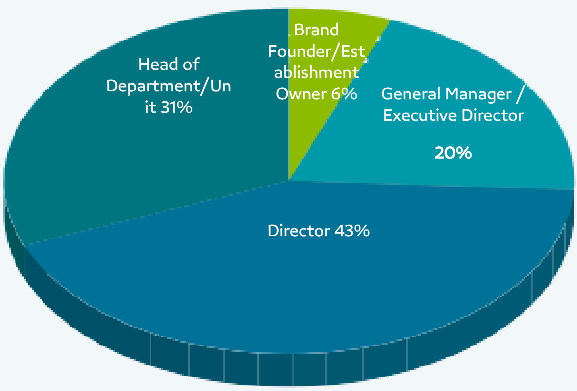
Total	One Region	Two Regions	The Three Main Regions	All regions (13)
113	52	10	10	41



- All brand segments have been covered in terms of geographic presence, with most brands concentrated in either one region only or all regions.

Brand Representative Interviewed

Total	Head of Department/Unit	Director	General Manager / Executive Director	Brand Founder/Establishment Owner
113	35	49	22	7



- (Franchising / Finance / Marketing / Operation) Director tier represented the largest proportion of interviewees.

Current State of Franchise Industry in Saudi Arabia

Brand Data in the Franchise Industry

List of franchised brands collected through desk research and fieldwork:

545
Brands
(545) brands are foreign, representing around 87% of total brands in the franchise industry.

83
Brands
(83) brands are local, representing around 13% of total brands in the franchise industry.

628
Brands
628 brands were identified within the franchise industry through field surveys.

Total Brands	Foreign brands	Local brands	Main activity	No.
220	162	58	Food & Beverage	1
335	323	12	Retail Trade	2
73	60	13	Services & Entertainment	3
628	545	83	Total	

Brands in the Franchise Industry (according to database provided to Monsha'at):
- All foreign brands that have granted a master franchise to a Saudi company (even if the Saudi company has not granted sub-franchises yet).
- All local brands that have already granted a franchise inside or outside the Kingdom.

Brand Data in the Franchise Industry

Estimating the total number of brands within the franchise industry

Increase Rate

The increase rate was distributed according to the same brand rates observed in the main activities during field surveys.

%10

Number of Brands

Accordingly, an actual increase of up to 10% in the number of brands for each main activity was estimated.

%-10

Accuracy Rate

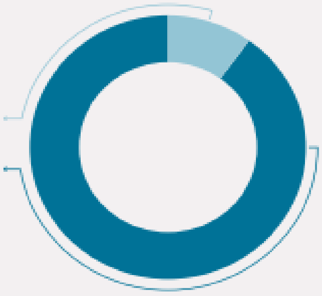
An accuracy factor of (-10%) was assumed to account for brands that were missed during field surveys.

No	Main activity	Local brands	Foreign brands	Total Brands
1	Food & Beverage	64	178	242
2	Retail Trade	14	355	369
3	Services & Entertainment	15	66	81
	Total	93	599	692

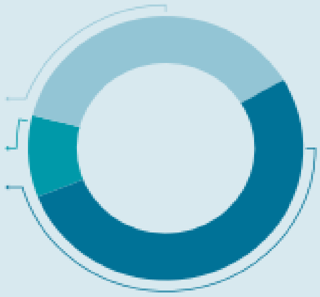
- The total number of brands within the franchise industry in the Kingdom is estimated at (692) brands.
- The total number of local brands is estimated at (93) brands, representing about 13% of the total brands within the franchise industry.
- The total number of foreign marks is estimated at (599) brands, representing about 87% of the total brands within the franchise industry.

Brand Data in the Franchise Industry

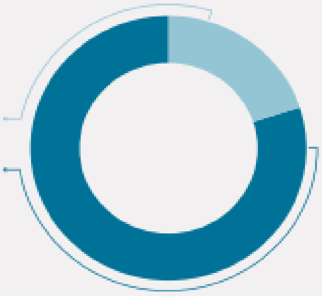
Total Franchise Brands



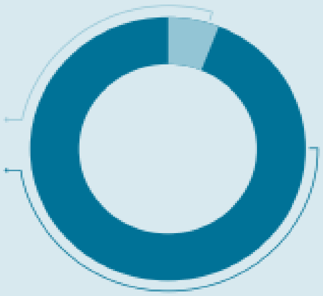
Distribution of total brands to key sectors



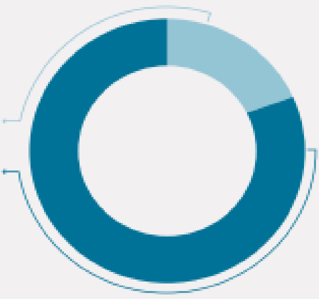
Food & Beverage Sector



Retail Sector



Services & Entertainment Sector

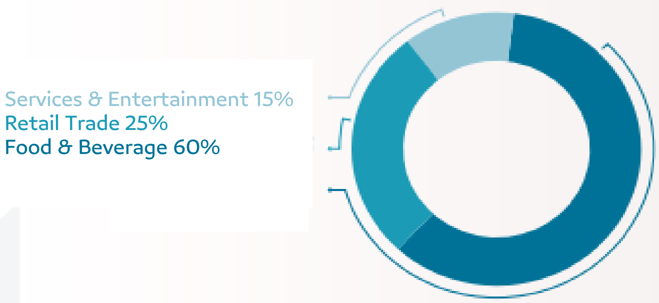


Brand Data in the Franchise Industry

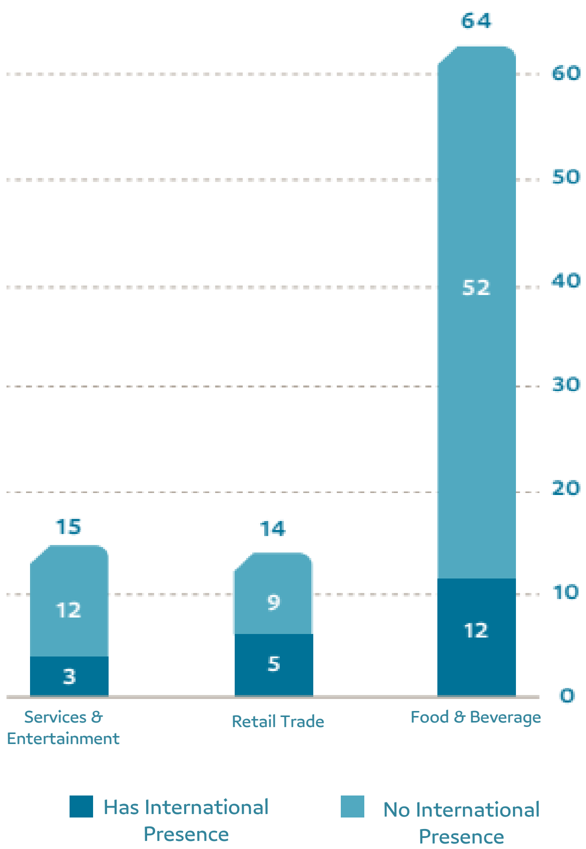
There are 20 Saudi brands within the franchise industry that have a presence outside the Kingdom (either through master franchising or direct investment in another country).

20
Brands

No.	Main activity	Local brands	Foreign brands	Total Brands
1	Food & Beverage	12	52	64
2	Retail Trade	5	9	14
3	Services & Entertainment	3	12	15
Total		20	73	93

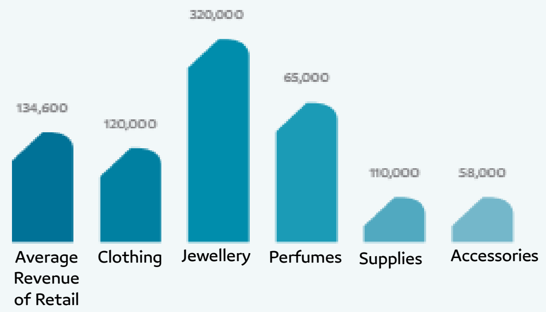


- **Food & Beverage Sector**
  (9 franchise brands + 3 self-expanding brands)
- **Retail Sector**
  (5 brands, all exist through franchising)
- **Services & Entertainment Sector**
  (All brands exist through franchising)



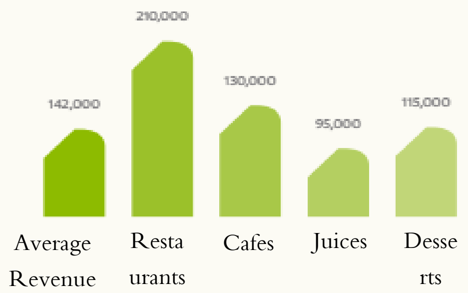
Average Monthly Unit Revenue

Retail Sector



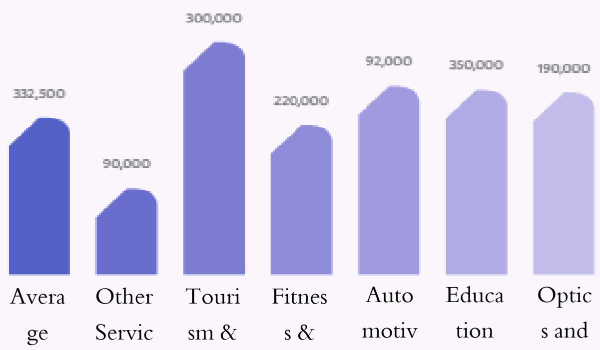
Average	Sub-activity
SAR 58,000	Women's Accessories
SAR 110,000	Electronics & Household Essentials
SAR 65,000	Perfumes & Cosmetics
SAR 320,000	Jewellery, Gold and Watches
SAR 120,000	Clothing and Footwear
SAR 134,600	Overall average of the sector

Food & Beverage Sector



Average	Sub-activity
SAR 115,000	Desserts and Pastries
SAR 95,000	Natural Juices
SAR 130,000	Cafes
SAR 210,000	Restaurants
SAR 142,500	Overall average of the sector

Food & Beverage Sector



Average	Sub-activity
SAR 190,000	Optics and Medical Labs
SAR 350,000	Education & Training
SAR 92,000	Automotive Services
SAR 220,000	Fitness & Personal Care
SAR 300,000	Tourism & Recreation
SAR 90,000	Other Services
SAR 332,500	Overall average of the sector

Total Sector Revenue Estimate

Total Annual Revenues	Total Number of Units	Average Annual Revenues	Average Monthly Revenues	Sub-activity	Main activity
SAR 119,712,000	172	696,000	58,000	Women's Accessories	Retail
SAR 293,040,000	222	1,320,000	110,000	Electronics & Household Essentials	
SAR 2,094,300,000	2,685	780,000	65,000	Perfumes & Cosmetics	
SAR 1,701,120,000	443	3,840,000	320,000	Jewellery, Gold and Watches	
SAR 2,561,760,000	1,779	1,440,000	120,000	Clothing and Footwear	
SAR 2,290,800,000	1,660	1,380,000	115,000	Desserts and Pastries	Food & Beverage
SAR 63,840,000	56	1,140,000	95,000	Natural Juices	
SAR 1,148,160,000	736	1,560,000	130,000	Cafes	
SAR 7,718,760,000	3,063	2,520,000	210,000	Restaurants	
SAR 1,849,080,000	811	2,280,000	190,000	Optics and Medical Labs	Service
SAR 483,000,000	115	4,200,000	350,000	Education & Training	
SAR 1,187,904,000	1,076	1,104,000	92,000	Automotive Services	
SAR 414,480,000	157	2,640,000	220,000	Fitness & Personal Care	
SAR 1,375,200,000	382	3,600,000	300,000	Tourism & Recreation	
SAR 265,680,000	246	1,080,000	90,000	Other Services	
SAR23,566,836,000	13,603	Total			

Field survey data and team estimates.

Total Sector Revenue Estimate

Sub-activity	Sub-activity	Sub-activity	Sub-activity	Sub-activity	Main activity
645	516	3	172	Women's Accessories	Retail
18,037	14,430	65	222	Electronics & Household Essentials	
13,425	10,740	4	2,685	Perfumes & Cosmetics	
2,769	2,215	5	443	Jewellery, Gold and Watches	
48,922	39,138	22	1,779	Clothing and Footwear	
18,675	14,490	9	1,660	Desserts and Pastries	Food & Beverage
420	336	6	56	Natural Juices	
16,560	13,248	18	736	Cafes	
103,376	82,701	27	3,063	Restaurants	
9,124	7,299	9	811	Optics and Medical Labs	Service
4,312	3,450	30	115	Education & Training	
16,140	12,912	12	1,076	Automotive Services	
4,317	3,454	22	157	Fitness & Personal Care	
21,487	17,190	45	382	Tourism & Recreation	
1,845	1,476	6	246	Other Services	
280,056	224,045	16.5	13,603	Total	

Percentage of administrative and support staff is estimated at (20%) compared to (80%) for unit employees.

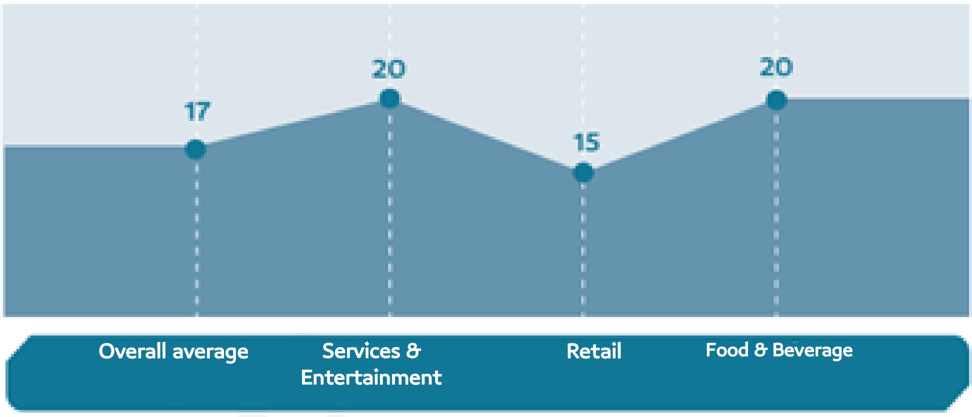
Field survey data and team estimates.

Field Survey Data Analysis

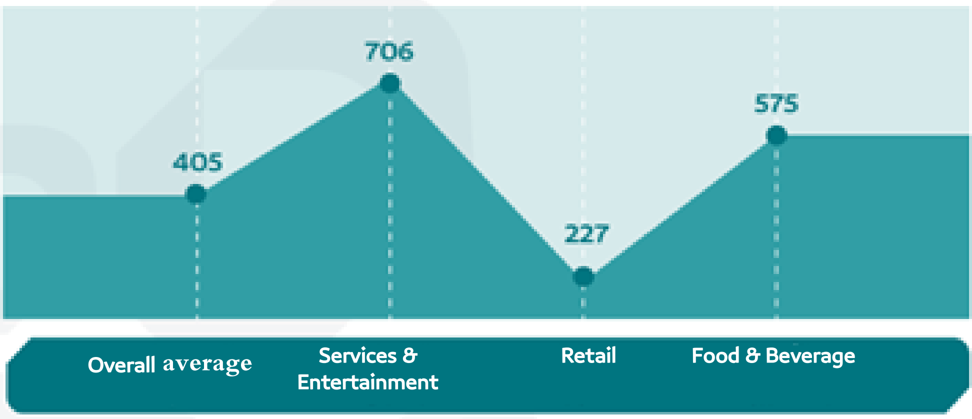
Employee data in the franchise industry

No.	Main activity	Number of Brands	Number of Units/Branches	Total Employees	Average per brand	Average per unit
1	Food & Beverage	242	5,515	139,031	575	20
2	Retail Trade	369	5,301	83,799	227	15
3	Services & Entertainment	81	2,787	57,226	706	20
	Total	692	13,603	280,056	405	16.5

Average number of employees per unit

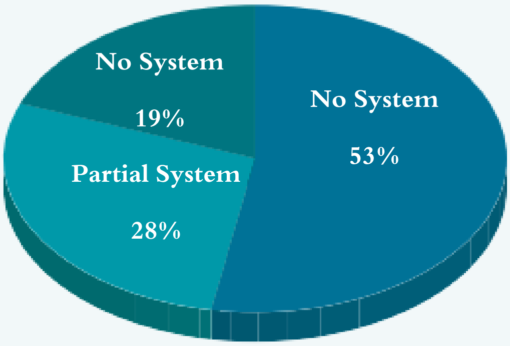


Average number of employees per brand



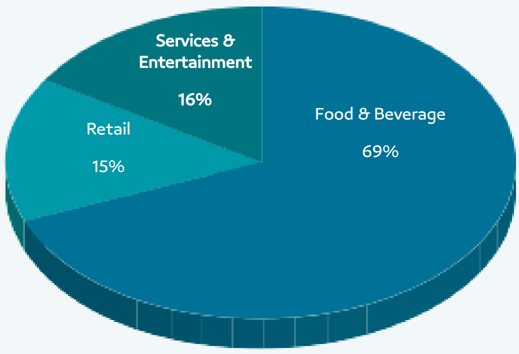
Local Brands in the Franchise Sector

Readiness and completion of the franchising system



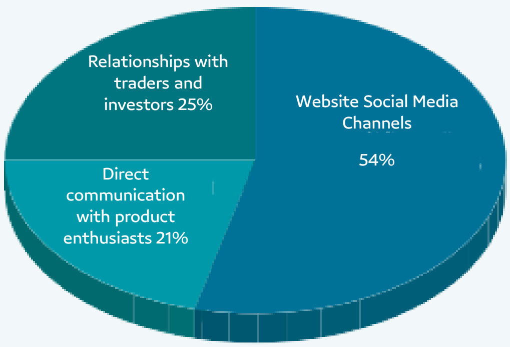
It is difficult to assess the quality or completeness of the current franchising system.

Distribution of local brands to activities



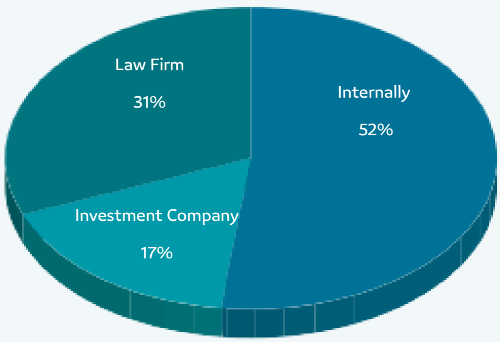
Most of the local brands are concentrated in the food and beverage sector, with a relatively smaller presence in the retail sector.

Marketing methods



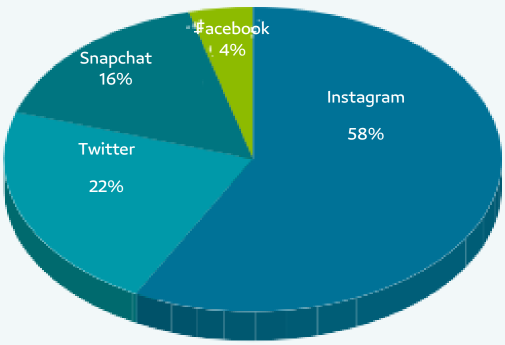
Most local brands tend to market their franchise opportunities online, with brokerage and marketing firms playing an extremely limited role.

Franchising development mechanism



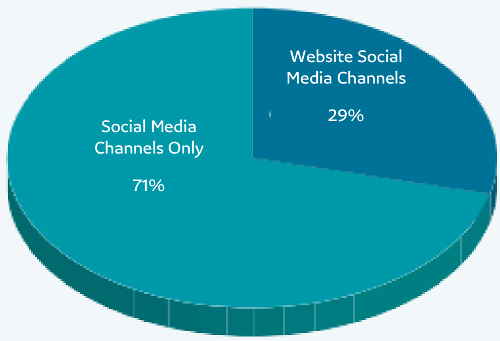
Most local brands tend to develop their franchising systems internally, so there should be a focus on building the capabilities of local consulting firms.

Social Media Marketing Channels



Instagram ranks first as a preference for of local brands, while Facebook comes last.

Electronic means



Most local brands use only social media channels for brand promotion, with approximately 71% of them lacking a website.

Key Obstacles and Required Support

Major organizational and administrative problems and obstacles facing brands

- Automation of work systems
- High cost of foreign labor
- Model contracts and agreements
- Competition controls
- Availability of qualified Saudi workforce
- Quality control standards

Key information and data whose lack affects brands

- Statistics & Research
- Amicable dispute resolution mechanism
- Guide for relevant government procedures
- Market and consumer behavior studies
- Clarity of communication mechanisms with relevant governmental regulatory and executive entities
- Sector competitivenes s studies

Key difficulties brands face in government transactions

- Lengthy time for completion of procedures
- Excessive number of official entities to engage with
- Unclear procedures
- Government fees

The most important areas of government support that brands need

- Cultural and awareness programs support
- Tax and customs support
- Research and studies support
- Training and capacity-building support
- Regulatory and administrative procedures support
- Funding support

Need for Franchise Centre Services

(Top priority) Services

- Amicable settlement of franchise disputes
- Development of operation manuals
- Guidance
- Consulting
- Training

(High priority) Services

- Providing part-time franchise managers for brands
- Brokerage licenses
- Preparing disclosure documents
- Entrepreneurial training program culminating in franchising in collaboration with brands
- Evaluating entrepreneurs' readiness for franchising

(Medium priority) Services

- Evaluating brands' readiness for franchising
- Preparing franchising contracts

Key Saudi Franchise Industry Indicators Based on Benchmark Countries

Current State of Franchise Industry in Saudi Arabia

Comparison of Saudi Current State with Benchmark Countries

Comparison with Franchising Industry Indicators in the Six Countries

Indicator	Saudi Arabia	Malaysia	South Africa	Brazil	Germany	US	UK	Main Indicators
↓↓↓	93	586	661	2,742	726	727	3,443	Number of local brands
↑↑↑	599	329	159	178	242	199	214	Number of foreign brands
↓	692	915	820	2,920	968	926	3,657	Total brands in the franchise industry
↓↓↓	13,4	64	81	94	75	78	94	Percentage of local brands (%)
↓	14	29	44	151	165	47	754	Total number of units (thousand)
↓	20	32	54	52	170	50	206	Average number of units per brand
=	280 ألف	322 ألف	302 ألف	1,3 مليون	709 ألف	688 ألف	8,1 مليون	Total employees in the sector
=	405	352	368	445	732	742	2,214	Average number of employees per brand
↑	17	11	9	9	5	15	11	Average number of employees per unit
↓ =	9,61	8,32	40,3	32	144	21,3	837	Total Annual Revenue ($Billion)
=	7.7	7,6	11,7	11,2	2,9	6,2	4,6	Annual rate of revenue growth (%)

Current State of Franchise Industry in Saudi Arabia

Comparison of Saudi Current State with Benchmark Countries

Comparison with Franchising Industry Indicators in the Six Countries

Indicator	Saudi Arabia	South Africa	Malaysia	The Average without The USA	Main Indicators
The number of local brands is very low	93	661	586	1,214	Number of local brands
The number of foreign brands is very high	599	159	329	194	Number of foreign brands
The total number of brands is close to South Africa's and the overall average	692	820	915	1,410	Total brands in the franchise industry
Unlike all other countries, local brands account for 80% of total brands	13,4	81	64	75,7	Percentage of local brands (%)
The total number of units is much lower than all benchmark countries, even South Africa which has a similar number of brands	14	44	29	101	Total number of units (thousand)
The average number of units per brand is very low, indicating weak franchising systems, especially for master franchisees	20	54	32	71	Average number of units per brand
The total number of employees in the sector is normal compared to the number of brands and units	280,000	302,000	322,000	749,000	Total employees in the sector
The average number of employees per brand is close to the averages	405	368	352	532	Average number of employees per brand
The average number of employees per unit is among the highest in the world	17	9	11	8	Average number of employees per unit
Total annual revenue is proportional to the number of units	9,61	40,3	8,3	59	Total Annual Revenue ($Billion)
The annual revenue growth rate is among the best in the world	7,7	11,7	7,6	8	Annual rate of revenue growth (%)

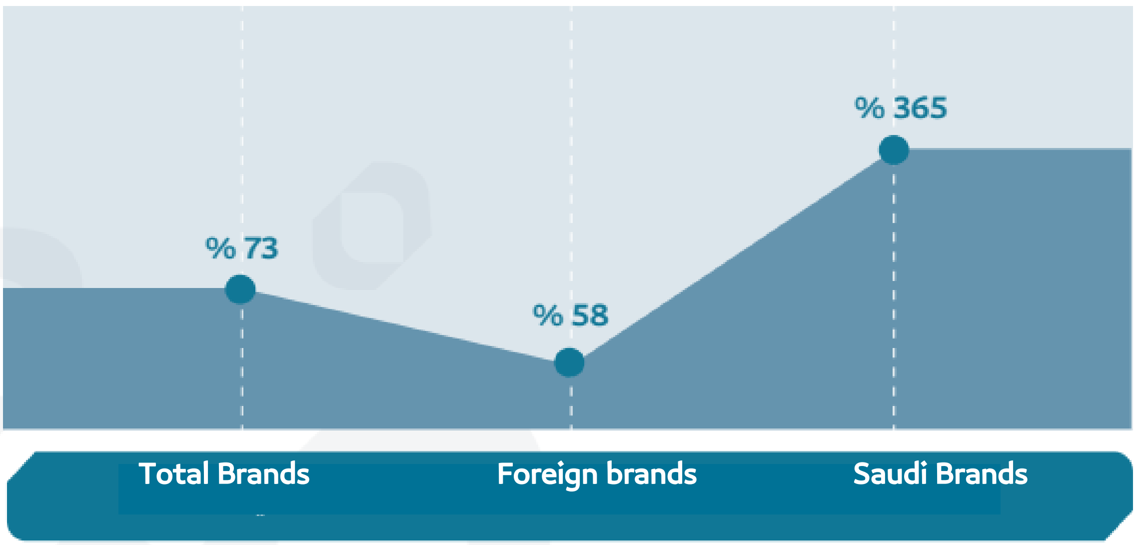
Current State of Franchise Industry in Saudi Arabia

Franchise Industry Growth

Growth Rate (2016-2020)

nun	2020	2016	Franchise Brands
% 365	93	20	Saudi Brands
% 58	599	380	Foreign brands
% 73	692	400	Total Brands

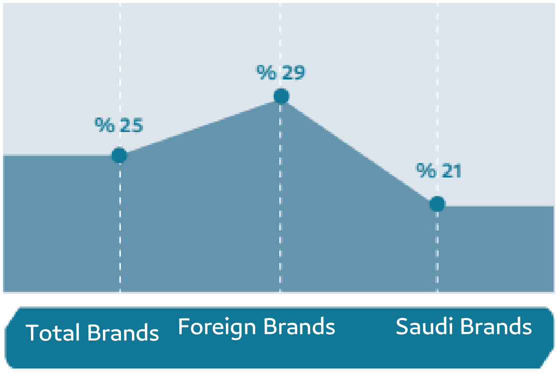
Growth Rate in Number of Brands



Current State of Franchise Industry in Saudi Arabia

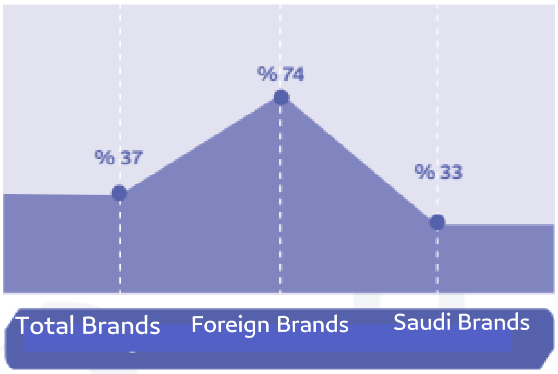
Average Growth in the Franchise Industry (2016-2020)

Annual Revenue Growth Rate



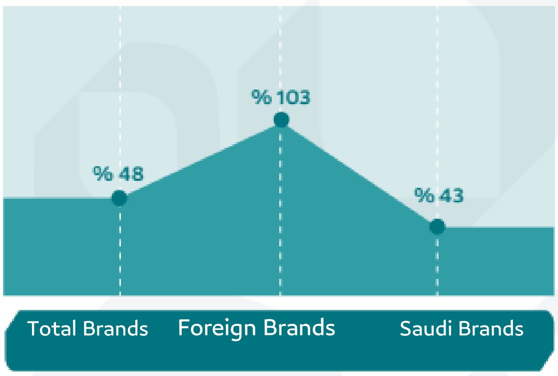
Growth	Brand Origin
21%	Saudi Brands
29%	Foreign Brands
25%	Average

Annual Revenue Growth Rate



Growth Rate	Brand Origin
33%	Saudi Brands
47%	Foreign Brands
3%	Average

Annual Revenue Growth Rate



Growth Rate	Brand Origin
43%	Saudi Brands
103%	Foreign Brands
48%	Average

Summary of Saudi Franchise Industry Study Conclusions

Key Findings and Recommendations

Current State of Franchise Industry

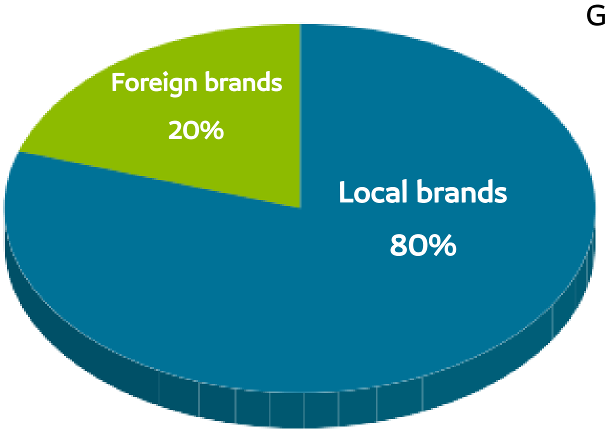
The average percentage of local brands per country is about (80%) of total brands

About 600 local brands
+
About 150 foreign brands

The global average number of brands in the franchise industry is

About
750
brands per country

Global Distribution of Brands

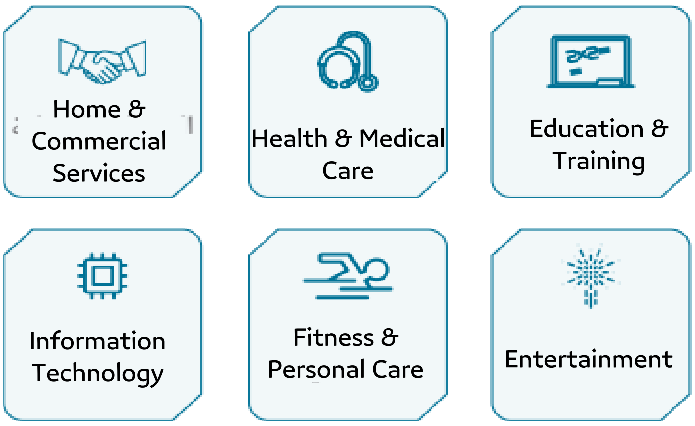


- Unlike most countries globally, the number of foreign brands significantly exceeds local brands in Saudi Arabia.
- Foreign brands represent about 86% of total brands in Saudi's franchise industry, with a total of 599 foreign brands.
- Retail trade (especially in fashion) has the largest share, with 355 foreign brands, accounting for 96% of brands in the sector.
- The food and beverage sector comes second with 178 foreign brands, accounting for 74% of brands in the sector.
- The services and entertainment sector comes third with 66 foreign brands, accounting for 81% of brands in the sector.

Key Findings and Recommendations

Current State of Franchise Industry in Saudi Arabia

- There is a huge increase in the percentage of foreign brands compared to Saudi brands
- The unit rate per brand is very low
- There is a significant increase in the retail sector, compared to global averages (especially foreign brands)
- Most globally active sectors still weak in the Saudi market, especially:



- Low brand penetration rate (units per brand)
- Most Saudi companies with foreign master franchises prefer self-expansion in the Saudi market rather than grant sub-franchises.
- Major Saudi companies that own widely popular local brands prefer self-expansion rather than engaging in franchising.

SWOT Analysis of Saudi Franchising

Current State of Franchise Industry Globally

S Strengths	W Weaknesses	O Opportunities	T Threats
Franchising provides a major opportunity for local brands to expand domestically and abroad. Franchising offers better opportunity and lower risk for entrepreneur startups. Support system provided by brand owner reduces costs, saves effort and mitigates risks. Benefitting from economies of scale in raw material procurement and marketing services.	Larger companies acquiring master franchises for most foreign brands and self-expanding rather than granting sub-franchises. Most successful local brand owners preferring self-expansion over granting sub-franchises. Harmful franchisor strategies controlling franchisees. High initial fees and sales percentages that may represent a large portion of monthly profits.	Saudi Vision 2030 and focus on promising sectors, especially technology, alternative energy and quality of life. Government support for SMEs and entrepreneurship. Government policies to support localization provide expansion opportunities via franchising. Purchasing power and consumer patterns in Saudi Arabia and ability to expand in the Gulf.	Global disasters (e.g., the COVID-19 pandemic) may affect the flow of raw materials or goods from the country of origin of foreign brands. The impact of pandemics and epidemics on certain sectors and activities (e.g., travel, tourism and some retail activities). Changes in political relations between countries may affect foreign brand performance. Government laws and fees related to expatriate labor.

Future of the Franchise Industry in Saudi Arabia and Vision 2030

Current State of Franchise Industry

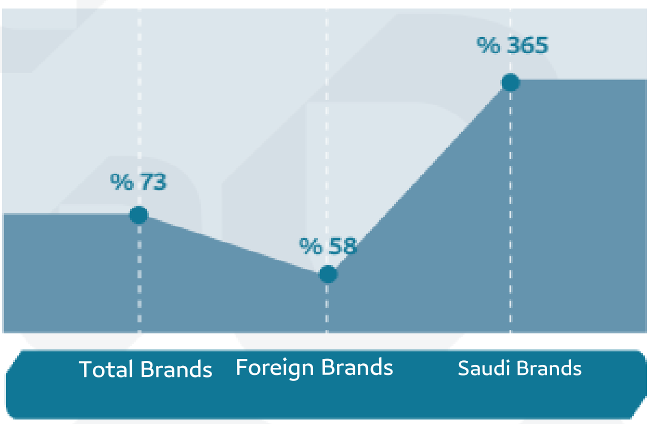
General Objectives to Support Enterprises as per Saudi Vision 2030

VISION 2030 رؤية
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

- Increase the contribution of small and micro enterprises to the local economy
  - Focus on increasing the rate of local content
  - Focus on priority economic sectors
- Increase the rate of sustainable job creation for Saudi youth
  - Focus on sectors that support employment localization

Franchise Industry Growth Rate (2016: 2020)

In just 4 years, the franchise industry in the Kingdom has achieved a huge boom:



- Total franchised brands grew from 400 to 692 brands
- Local franchised brands grew from 20 to 93 brands
- There are around 20 Saudi brands in the franchise industry with international presence


Franchise Centre

Future of the Franchise Industry in Saudi Arabia

Franchise Centre

As a continuation of the efforts made by the General Authority for Small and Medium Enterprises "Monsha'at" to support and develop the SME's sector in the Kingdom,

The Franchise Centre was established to contribute to the prosperity and sustainability of this industry. It aims to create new horizons for investors and entrepreneurs to expand and grow their businesses, resulting in providing many job opportunities, increasing the gross domestic product, and improving the commercial and investment business environment.

Vision

Supporting and providing all services and products related to franchising under one umbrella

Mission

Spreading the culture of franchising as an option for the expansion of local brands and as investment opportunities for entrepreneurs. This includes developing local brands and spreading them globally and attracting international brands to support national economic diversification and generate more job opportunities.

Future of the Franchise Industry in Saudi Arabia

Based on the survey of the current state of franchise industry in the Kingdom, the Franchise Centre will focus on the following:

Incentivizing master franchisees of international brands to grant sub-franchises

Attracting distinguished international brands in new and promising sectors

Supporting regional and global expansion of leading local brands

Supporting the transformation of distinguished local brands into a franchising model

Motivating Saudi entrepreneurs and business leaders to obtain a franchise, rather than establishing a new business.

This is aimed at achieving the following objectives:

- **Increasing the number of brands operating in the franchise industry**
- **Increasing the average number of units per brand**

Priority Sectors

Information Technology	Health & Medical Care	Education
Fitness & Personal Care	Entertainment	Services

Future of the Franchise Industry in Saudi Arabia

Key pillars to strengthen the franchise sector

- Focus on increasing the rate of local content
- Increase the number of local brands
- Bring franchising to global rates
- Increase the rate of sustainable job creation for Saudi youth
- Focus on priority economic sectors

Franchise Centre Main Work Tracks

Key Track Objective	Track	Services
Facilitate financing access for franchisors and franchisees through partnerships with financing entities	Financing Access Facilitation Track	Design financing products in cooperation with financing entities
Support brand owners, entrepreneurs and franchising practitioners through accredited training programs to enhance their knowledge	Capacity Building Track	Provide training programs, consulting and guidance
Motivate local brands to expand through franchising and connect them with qualified franchisees, or international opportunities	Brand Support Track	• Franchise Manager Service • Brand Evaluation Service • Participation in international exhibitions • Tomoh Franchise Program
Enhance and spread the culture of franchising among community members, and demonstrate its importance and impact on relevant stakeholders, through related studies, research, information and statistics	Awareness and Education Track	Organize interactive markets, exhibitions, conferences and seminars
Support franchising infrastructure and launch an electronic platform to provide various services in one stop shop	Franchising System Improvement Track	• Amicable Settlement Service • Brokers Licensing Service • Franchise Registration Service • Franchise Centre Platform

Future of the Franchise Industry in Saudi Arabia

Target Segments

Targeting Map Design Criteria

- Focus on alignment with the objectives of the Kingdom's Vision 2030
- Focus on gaps in the franchise sector
- Precise identification of different segments
- Set work objectives for each segment
- Define the access mechanism for each segment
- Define proposed values for each segment

There are 4 main segments that the Centre targets with its services, either directly or in coordination with them, to achieve its objective of supporting and growing the franchising industry in Saudi Arabia:

International Brands

- Global brands not yet in the Saudi market, with a focus on diversification and targeting non-traditional sectors.
- Saudi companies that hold master franchises for international brands in Saudi Arabia.

Local Brands

- Saudi local brands with national franchises, to help them expand regionally and globally.
- Distinguished self-expanding Saudi local brands, that can be assisted to begin franchising.

Entrepreneurs

- Aspiring entrepreneurs lacking concrete business ideas, who can be guided to obtain appropriate international or local brand franchises.
- Saudi entrepreneurs with promising concepts whose business models can be built from the outset for franchising.

Industry Stakeholders

All parties related to the franchise industry:

- Regulatory and supervisory authorities
- Government and private financing entities
- Support, training, empowerment and brokerage entities
- Supply Chains & Support Services (Companies & Individuals)

Future of the Franchise Industry in Saudi Arabia

Target Segments

Franchise Centre's Target Objectives for Target Segments

International Brands

Saudi companies that hold master franchises for international brands

- Encourage master franchisees to grant sub-franchises
- Provide less risky business opportunities for entrepreneurs with well-known and successful brands in the Saudi market

Global brands not yet in the Saudi market

- Motivate distinguished international brands to enter the Saudi market Provide diversity in franchising activities
- Focus on new and innovative franchising activities

Local Brands

Distinguished self-expanding Saudi local brands, that can be assisted to begin franchising.

- Increase the number of national brands
- Support the transition from self-operation to franchise model
- Support national brands in expanding locally

Saudi local brands with national franchises, to help them expand regionally and globally

- Select the top distinguished local brands (national champions)
- Support national brands in expanding locally
- Provide support for national champions to expand regionally and internationally

Entrepreneurs

Saudi entrepreneurs with promising concepts whose business models can be built for franchising.

- Develop leading and modern brands
- Increase the number of franchised national brands
- Providing franchise opportunities for new projects

Aspiring entrepreneurs lacking concrete business ideas

- Provide less risky business opportunities for entrepreneurs
- with well-known and successful brands in the Saudi market
- Create employment opportunities for Saudi youth and increase their participation in the franchise sector
- Combat commercial concealment

Industry Stakeholders

Government and private financing entities

- Facilitate access to financing for franchisors and franchisees
- Develop specialized financing programs for franchising

Regulatory and supervisory authorities

- Facilitate franchising activities
- Streamline government procedures
- Combat commercial concealment

Supply Chains & Support Services

- Enhance and develop the support services and supply chains
- of the franchise sector
- Provide business opportunities in supply chains

Support, training, and empowerment entities

- Provide support for qualification and development programs
- Support employment opportunities for Saudis in the franchise sector

Individuals

- Consultancy, law & brokerage firms
- Consultants, advisors, trainers, and human resources

Future of the Franchise Industry in Saudi Arabia

Franchise Sector Indicators by Natural Growth Rate

2030	2025	2020	2016	Indicator
587	363	93	20	Number of local brands
1,010	778	599	380	Number of foreign brands
1,597	1,141	692	400	Total brands in the franchise industry
% 37	% 32	% 13	% 5	Percentage of local brands
39,925	23,255	13,603	7,865	**Total number of units for all brands**

Estimated Franchise Sector Targets for 2020 Compared to Malaysia

Saudi Arabia	Malaysia	Key Indicators By End of 2020
93	586	Number of local brands
599	329	Number of foreign brands
692	915	Total brands in the franchise industry
13,4	64	Percentage of local brands (%)
14	29	Total number of units (thousand)
20	32	**Average number of units per brand**
280K	322K	Total employees in the sector
405	352	Average number of employees per brand
17	11	Average number of employees per unit
6,28	8,3	Total Annual Revenue ($Billion)
7,7	7,6	Annual rate of revenue growth (%)

1

Increasing the number of local brands to

600

brands

2

Increase the average number of units per brand

32

Franchise unit

Future of the Franchise Industry in Saudi Arabia

Franchise Sector Targets by 2030

Franchise industry indicators in the Kingdom can be improved by focusing on five key interventions to reach global rates in the 3 most important indicators by the end of 2030:

- Support the expansion of distinguished local brands by assisting them to operate on a franchising model
- Attract distinguished global brands in promising priority sectors to operate on a franchising model
- Motivate master franchisees of global brands in the Kingdom to grant sub-franchises
- Motivate entrepreneurs to obtain franchises, which carry lower risk and higher chances of success, compared to establishing a new business
- Facilitate financing access for brand owners and franchisees, to increase franchising agreements

3

Increase the number of employees in the franchise industry to

1 million

employees

2

Increase the average number of units per brand to

32

brands

1

Increase the number of local brands to

600

brands

منشآت
monsha'at
الهيئة العامة للمنشآت الصغيرة والمتوسطة
Small & Medium Enterprises General Authority