

The Kingdom of Saudi Arabia can claim to have one of the largest export markets in the world for automobiles.

The Automobile Market in Saudi Arabia:

Implications for Export Marketing Planning

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Introduction

For a country that is estimated to have only about 13 million inhabitants, the Kingdom of Saudi Arabia can claim to have one of the largest export markets in the world for automobiles. Statistics speak for themselves. For example, as can be seen in Table I, the Kingdom spent 2-5 billion riyals (one dollar = 3.745 riyals) per year during the past 15 years on car imports, which constituted, on average, 3-4 per cent of annual imports and ranked as the largest or the second largest import category. In terms of numbers of cars, Saudi Arabia imported an average of 125,000 cars per year since 1978, while car imports climbed to a peak at 217,000 during 1982. Furthermore, the number of car registrations exceeded 2.4 million vehicles during 1990 (*Statistical Year Book 1990*, p. 245), which gives the Kingdom about 21 cars per 100 inhabitants, a ratio that stands among the highest in the developing world.

Even though it is not included in the study presented in this article, Saudi Arabia is also a major export market for the one-ton truck. This type of vehicle is the favourite means of transport for the rural Saudis and the Beduins.

Official registration figures show over 2.2 million small trucks in the Kingdom during 1990 (*Statistical Year Book 1990*, p. 245). When the one-ton truck ownership in Saudi Arabia is combined with the car ownership, the number of private vehicles per 100 inhabitants reaches almost 38 vehicles, which is a very impressive figure among both developing and developed countries in the world.

This large export market is very dynamic in terms of exporting participants. Depending on the opportunities appearing in the market for their marketing strategies, a number of exporters enter the market to carve out small niches for themselves. For example, exporters from a number of countries including North Korea, Russia, Bolivia, Canada, Brazil, Holland, Poland, Spain and Romania have had a presence in the market, at one time or another, by exporting several hundreds of cars to Saudi Arabia. Typically, these entrants want to capitalize on one aspect of their marketing programmes, for example, low prices. Because of the lop-sidedness of their marketing strategy, they would last for a few years, but eventually move out of the market to try their luck elsewhere.

Another type of participant comprises exporters who have made long-term commitments to the Saudi market, but to date their performances have been mediocre. Each one of these exporters controls around 1-3 per cent of the market. They do not have the marketing strength to break away from their group to make a run after the market leaders. This group includes car exporters from

Table I. Car Exports to Saudi Arabia

Year	Number of cars	Percentage change	Value in million riyals	Percentage change
1969	11,653		117	
1975	50,711	+ 335	730	+ 524
1978	121,930	+ 140	2,257	+ 209
1979	189,231	+ 55	2,927	+ 30
1980	195,504	+ 3	4,081	+ 39
1981	136,777	- 30	3,270	- 20
1982	217,275	+ 59	5,025	+ 54
1983	172,001	- 79	4,376	- 13
1984	120,019	- 30	3,248	- 26
1985	105,199	- 12	2,833	- 13
1986	52,510	- 50	1,949	- 31
1987	75,122	+ 43	3,098	+ 59
1988	74,358	- 1	3,355	+ 8
1989	84,959	+ 14	3,462	+ 3
1990	95,382	+ 12	4,205	+ 21
1991 ^a	105,000	+ 10	5,000	+ 19
1992 ^a	115,500	+ 10	6,000	+ 20

^a Estimated.

Source: *Foreign Trade Statistics*, Central Department of Statistics, Ministry of Finance and National Economy, Kingdom of Saudi Arabia.

Sweden, England, Italy and France. Up until 1986, exporters from South Korea used to be in this group. Because of their longer-term continuous presence in Saudi Arabia, the exporters in this group have established some brand-name recognition for their cars in the market. Some of the models readily recognized to be available from these car exporters include: Saab and Volvo from Sweden; Rolls-Royce, Jaguar and Rover from England; Fiat from Italy; and Peugeot and Citroen from France.

Another group of participants found in the Saudi car market are those exporters who have stronger marketing programmes, as reflected by the 3-10 per cent of the market controlled by each one of them. The exporters in this group come from South Korea and Germany. The South Korean exporters, after making a nominal impact in the market for many years and finally pulling out completely during 1984, came back the next year and created nothing short of a miracle by eventually capturing a significant portion of the market. Some of the better-known models exported from the countries in this group include: Daewoo and Hyundai from South Korea; and Mercedes-Benz, Audi, Volkswagen and BMW from Germany.

Finally, there are two other participants in the Saudi car market who lead the rest on the basis of their innovative marketing programmes. These participants are the exporters from the USA and Japan. American exporters are the market challengers, controlling around 10-35 per cent of the market, collectively. Some of the cars exported to Saudi Arabia by the American exporters include selective models of Chevrolet, Pontiac, Oldsmobile, Buick and Cadillac by General Motors; Mercury and Lincoln by Ford; and Plymouth by Chrysler.

The unquestionable market leaders in Saudi Arabia are the Japanese car exporters. Japanese exporters have dominated over the years by controlling around 50-75 per cent of the market. Some of the Japanese car models exported to Saudi Arabia include: Honda, Daihatsu, Mazda, Mitsubishi, Nissan, Suzuki, Toyota and Subaru.

It is against this background that the study reported in this article examines the car market in Saudi Arabia. The first section analyses the historical trends for car exports to Saudi Arabia, focusing primarily on the last 15 years. The second section describes some of the salient characteristics of the market. This discussion includes various factors that influence the level of demand for cars and the market segments that exhibit different needs and wants. The third section investigates some unique aspects of marketing cars in Saudi Arabia. This section gives special attention to different kinds of agency arrangements used for the distribution of cars in the Kingdom. Finally, the article concludes by presenting some implications for the future of the car market in Saudi Arabia.

Market Performance

Market Growth: 1969-1982

As can be seen in Table I, the car market in Saudi Arabia exhibited phenomenal growth during this period. As there is no local production, the car market is totally supplied by foreign car exporters. From only about 12,000 cars during 1969, car exports to Saudi Arabia increased to almost 51,000 by 1975. Car exports to Saudi Arabia more than doubled to reach 122,000 during 1978. Except for 1981, car exports to Saudi Arabia continued to increase; they peaked at around 217,000 during 1982.

The dramatic expansion of the car market in Saudi Arabia during this period can be explained by three situational factors that influenced the level of demand. It is ironic to note that all of these factors had also significantly contributed towards the slump in the car market which occurred after 1982. These factors are: the influx of petrodollars and expatriate guest workers into the country, and the affordability of car prices.

First, Saudi Arabia became one of the richest countries in the world following the sharp price increases in crude oil during the latter part of 1973. As the country is a major crude oil exporter, the result of the initial and subsequent hikes in crude oil prices was to bring the Kingdom to the forefront of the business world. For instance, Saudi Arabia's exports of crude oil reached \$115 billion by 1981: they were only about \$3 billion during 1970 (Tuncalp and Yavas, 1986). Similarly, Saudi Arabia's per capita GDP in 1982 was over \$18,000; one of the highest in the world (*Newsweek* survey, 1983). One consequence of the influx of petrodollars into the country was to increase demand for all sorts of goods and services, including automobiles. As everything which the country needed had to come from outside, the value of imports jumped from less than \$1 billion in 1970 to almost \$40 billion by 1982 (Tuncalp *et al.*, 1987).

Second, this period also saw a quickened pace of economic development. One consequence of speedier economic progress was a significantly increased demand for all types of workers. As the human resource capability of Saudi Arabia was limited due to its small population base, the country sought the services of expatriate workers. Millions of workers from almost every country in the world came to Saudi Arabia during this period (*Arab News*, 1989). This large expatriate workforce increased the size of the total market in Saudi Arabia, while adding to the demand for all sort of goods and services, including automobiles.

Third, another factor which influenced the rise of car demand was the affordability of prices during this period. In relation to the income levels prevailing in the Kingdom, the prices of cars sold in Saudi Arabia were within easy reach of most income earners. For example, the going rates in the market for Japanese cars were in the 15-20,000

riyals range, while American cars sold for 20-35,000 riyals. As a rough indicator, an unskilled labourer could purchase a Japanese car with five to six months' wages; a professional worker such as an engineer or a university professor would have needed only one to two months' salary.

Market Slump: 1983-1986

Car sales in Saudi Arabia decreased dramatically during the period between 1983 and 1986. As can be seen in Table I, after reaching a peak during 1982 at over 217,000, car exports to Saudi Arabia plummeted to almost 53,000 by 1986; less than a quarter of the peak level. The market erosion took place in major steps: a 79 per cent decline between 1982 and 1983; a 30 per cent loss from 1983 and 1984; a 12 per cent drop between 1984 and 1985; and a further 50 per cent decline between 1985 and 1986.

The slump in car exports was the result of the combined influence of a number of factors which appeared in the market during the early 1980s. First, after a decade of rapid expansion, the Saudi economy entered into a period of recession. A chain of events, which started with a glut in the world oil markets and a fall in oil prices, resulted in a reduction in the Saudi oil exports and export revenues; a decrease in government revenues; a cut-back in government expenditures; and a reduced level of economic activity. There was a general reduction in the incomes of expatriates. The recession also psychologically influenced the Saudi people's future income expectations. Thus, both Saudis and expatriates became very cautious in their purchase decisions, including their car purchases.

Second, the recession also caused thousands of expatriates to leave the country (*Arab News*, 1985). While fewer job opportunities significantly accelerated this exodus, the lower salaries offered to expatriates also contributed to many departures (*Saudi Gazette*, 1989). The substantial decline in the expatriate community in Saudi Arabia not only significantly influenced the demand for used cars, but also the demand for new automobiles. As it was difficult to find buyers for their used cars, potential buyers of new cars opted to keep their old models instead of purchasing new ones (Ramkumar, 1990).

Third, in an effort to shore up the sagging revenue sources, the Saudi Government raised customs duties across the board for most imports. The import tax for cars was raised to 12 per cent *ad valorem*. This increase was passed on to the customers with similar increases in car prices, which further convinced many potential buyers to hang on to their present cars for longer periods of time instead of purchasing new ones.

Fourth, also as a means to raise revenues, the Saudi Government instituted an annual car inspection programme. The municipalities were authorized to

establish inspection stations where cars registered within their jurisdictions would be inspected and those that passed the inspection would be issued driving permits. All cars that failed their inspection would have to be repaired and put in proper condition so that they could eventually pass the inspection and receive their permits. It would be illegal to operate cars without valid permits.

The car inspection programme significantly increased people's conscientiousness towards car maintenance. One benefit of this programme was that car owners would now maintain their cars properly in order to pass the annual inspection, and therefore their cars would operate satisfactorily for longer periods. In this manner, one indirect effect of this programme on the car market was its negative consequence for new car sales by prolonging the operational life of automobiles already in the public's possession. Another benefit of this programme was the significant revitalization of the market for spare parts and the demand for car repair services in Saudi Arabia.

Finally, the dynamism among the international currency exchange rates and the resulting changes in the prices of cars sold in Saudi Arabia is another important factor that affected car sales in the Kingdom. During this period, the Saudi riyal showed a stable relation against the dollar, gradually depreciating one to two percentage points every year. On the other hand, the Saudi riyal lost significant ground against the currencies of the other major car exporters to Saudi Arabia. For example, the Saudi riyal depreciated against the Japanese yen by 39 per cent; against the German mark by 41 per cent; against the British pound by 25 per cent; against the French franc by 36 per cent; against the Italian lira by 33 per cent; and against the Swedish krona by 27 per cent. The loss in the purchasing power of the Saudi riyal against the currencies of the major car exporters to Saudi Arabia and the resulting major price increases for their cars had a significant downward effect on car demand in the Kingdom.

Market Revitalization: 1987-1992

Even though not as strong as it was during the 1980s as yet, there is some indication that car demand in Saudi Arabia is picking up. As can be gleaned from Table I, after bottoming out at 52,510 cars during 1986, the number of cars exported to Saudi Arabia has steadily increased since then to reach 95,382 cars during 1990. Even though official statistics have not been released yet, an informal survey of car exporters indicate that car exports for 1991 and 1992 have been above the levels reached during 1990.

There are two factors which contributed to the revitalization of demand for cars in the Kingdom. First, as the average age of cars operating on the roads increased, perhaps to as much as six years old (Ramkumar 1990), the car market began to expand due to a larger demand for new cars coming from replacement sales. The

car owners who hung on to their cars throughout the mid-1980s are being forced to replace their old cars with new models. For example, an informal survey conducted by the author over the past five years, among the students attending an introductory marketing course in the MBA programme, has begun to show some new-car owners only starting last year.

Second, the Saudi economy shows every sign of expansion during this period. There have been several indications of prevailing economic growth in Saudi Arabia for the past few years (*Country Report*, 1992). For example, most of the macro indicators of economic activity such as GDP, exports, and government revenues and expenditures have showed moderate increases. The Saudi market also gained back its dynamism and shows buoyancy. One indication of this buoyancy is the increasing levels of imports of the last few years. Consumer confidence has returned and they are again willing to spend on all sorts of products and services, including automobiles.

Market Characteristics

Demand Factors

Various aspects of the Saudi market exert significant influence on the level of demand for cars. Some of these aspects are unique to Saudi Arabia. Also, depending on their nature, these aspects can have an upward or a downward impact on the level of demand. One aspect which has an influence on demand for cars in the Kingdom is the traditional and religious beliefs and values which manifest themselves in the form of the prohibition of women from driving and high accident rates.

Women are not allowed to drive in the Kingdom. This tradition is strictly enforced in all public places, including all urban centres and even in rural areas. The authorities turn a blind eye, however, to enforcing this rule when there are large numbers of expatriate females living in isolated compounds. For example, both Saudi and expatriate women are unofficially permitted to drive within the communities of the Saudi Arabian Oil Company (Saudi ARAMCO), the campus of the King Fahd University of Petroleum and Minerals, and various other compounds that are isolated from public view behind high walls and security gates.

The prohibition of women from driving lowers the demand for cars in Saudi Arabia because potentially half of the market, which would have consisted of women drivers, does not exist. Some small portion of this lost demand is gained back when this tradition also increases the demand for taxis and chauffeur-driven limousines. Also, this tradition minimizes the influence of women on car purchase decisions. The target market for car exporters to Saudi Arabia becomes an all-male market. Some of the more feminine attributes such as comfort, styling, luxury,

quietness and ease in driving, which would play prominent roles in advertising campaigns to persuade women drivers to purchase cars, lose their primary importance.

Despite the fact that road conditions are excellent, Saudi Arabia exhibits a high rate of car accidents. There were about 36,000 car accidents reported to police during 1990 (*Statistical Year Book 1990*, p. 249), the last year for which official statistics are available. These accidents have resulted in about 24,000 injuries and about 2,700 deaths (*Statistical Year Book*, 1990 p. 249). Considering the country's population base and the number of cars registered, both of which are relatively much smaller than their counterparts in the Western countries, the level of accidents and the resulting fatalities are very high. For example, extrapolating on the basis of population differences alone, if the USA had the same rate of fatalities resulting from car accidents as Saudi Arabia, there would be around 52,000 deaths from traffic accidents in the USA instead of the current 25,000 fatalities per year.

One explanation that can be proposed for the high rate of road accidents in Saudi Arabia is the fatalistic attitude taken towards life by Moslem drivers. As they believe that their destinies are determined by a higher order, they also believe that whatever happens cannot be controlled. This attitude may be the reason for the extreme recklessness of some Moslem drivers and the high speeds which they reach while on the roads. As statistics show, the primary reason for having accidents, especially accidents involving fatalities, is extreme speeding.

The high rate of traffic accidents in Saudi Arabia has a negative impact on the demand for cars by discouraging some potential customers from the purchase decision, especially some of the guest workers who come to Saudi Arabia from Third World countries. Their fear of getting involved in car accidents, which would result in police interference and perhaps some time spent in jail, is a major impediment to them owning cars during their stay in the country.

Two other aspects of the Saudi market which influence demand for cars are fuel and insurance costs. As these types of costs are much lower than in the West in the case of fuel, and almost non-existent in the case of insurance, the operational cost of driving automobiles in Saudi Arabia is significantly reduced.

The abundance of petrol in the country, which exists naturally in the form of crude oil deposits, results in the availability of cheap petrol to customers. It is well known that Saudi Arabia has the largest crude oil reserves in the world, and the Kingdom is also one of the largest producers and exporters of crude oil and refined oil products in the world. For example, the seven refineries at Ras Tanura, Yanbu (2), Jubayl, Rabigh, Riyadh and Jeddah produce enough petrol, not only for domestic consumption, but also for exporting.

Therefore, because of the availability of petrol, all from indigeneous sources and in abundant quantities, Saudi Arabia is one of the cheapest places on earth in terms of petrol prices at the retail level. All of the petrol sold in the country is of super octane quality. There is no leaded or unleaded petrol on the market. The Government sets the price of petrol and this uniform price covers the entire market. There are never any price discounts, price wars, or price discrimination among the petrol dealers. At present, the Government's set price for one litre of super petrol is around 14 cents, or about 57 cents a gallon.

As drivers are not concerned about consumption and conservation, the unlimited supply of cheap petrol indirectly stimulates the expansion of demand for cars in several ways. First, there is less development of alternative means of transport. For example, public transport systems found in the West such as electric trains, elevated trains, or underground railways and metros are non-existent in Saudi Arabia. In the same manner, there is public bus transport but no Saudi would want to be caught riding this system. In addition, even for short distance transport there is hardly any use of bicycles and motorcycles. Second, there is also increased reliance on, and usage of cars which is spurred by the availability of cheap petrol. More reliance on automobiles increases multiple car ownership (Harvey, 1982) and, as cars tend to depreciate sooner (Al-Kathery, 1986), more usage of cars results in speedier replacement sales.

Another factor which indirectly lowers the operating costs of car ownership in Saudi Arabia is the resistance among Moslem drivers towards acquiring car insurance. Even though official statistics are not available, perhaps nine out of ten cars on the roads in Saudi Arabia do not carry car insurance. This situation is the result of a confusion in the minds of the Moslem drivers about the legitimacy of car insurance from a religious point of view (*Arab News*, 12 March 1990). Many religious scholars still remain opposed to insurance because of their interpretation that insurance is a form of gambling or betting, and that it is a challenge to God's (Allah's) will. Many other scholars interpret car insurance to be perfectly acceptable for Moslems to buy. In the light of these conflicting views from religious scholars, most Moslem drivers in Saudi Arabia play it safe and opt to drive their cars without the full benefit of a comprehensive insurance policy.

Climatic and road conditions are other aspects of the Saudi market which influence the demand for cars in the Kingdom. The extreme weather in Saudi Arabia can be very harsh on cars, thus affecting their durability and accelerating their depreciation (Al-Kathery, 1986). The desert climate prevailing in the country shows extreme variations in daily and seasonal temperatures. The day-time temperatures can go as high as 130-140°F. Cars left in direct sunlight in these temperatures soon develop cracks in the interior and exterior parts made out of vinyl and leather; other parts consisting of foam and rubber dry out and become brittle.

The coastal areas of Saudi Arabia will have very humid air at certain times of the year. As a matter of fact, humidity in these parts of the country will exceed 100 per cent, so that everything will be as wet as if it had rained. In addition, the ground water in Saudi Arabia tends to have a high salt content. Under these conditions, cars frequently exposed to wet air and/or washed with saline water are in real danger of developing corrosion problems.

Another climatic condition which results in speedier depreciation of cars in Saudi Arabia is the sand-storms (shamals). This phenomenon will also occur at certain times of the year, and some of the sand-storms can last for many days, even weeks, moving huge mountains of sand from one location to another. As the strong wind carries small sand particles, the sand-storm will have the same effect on cars as if they were being sandblasted. Under these conditions, paint will scratch or even scrape off from car bodies very quickly.

Saudi Arabia ranks in the top 20 richest countries in the world

The significantly improved road conditions in Saudi Arabia prolong the usable lives of cars and hence contribute negatively to the demand for new cars. Since 1970, the Saudi Government has invested about 80 billion riyals in road construction and developed a network of roads covering the Kingdom. For example, the Kingdom's paved road network stood at around 8,000 kilometres prior to 1970. However, today the Kingdom's paved road system consists of over 33,000 kilometres of super highways which join together all the major metropolitan centres and most of the smaller cities and towns (*Annual Reports*).

The last aspect of the Saudi market which perhaps exerts the strongest influence on the demand for cars is the richness of the country and the high standard of living enjoyed by most of the population. As a leading oil exporter with the largest reserves in the world, the Saudi Arabian economy grew over the last 15 years to become one of the 20 largest economies in the free world. The total Gross Domestic Product (GDP) is estimated to have been about \$114 billion in 1991 (*Country Report*, 1992). As far as the national income per capita is concerned, Saudi Arabia also ranks in the top 20 richest countries in the world. Despite the fact that it is a small country in terms of population, the Kingdom has a lucrative market, as reflected by the high level of imports, which reached \$35 billion during 1991 (*Direction of Trade Statistics*, 1992).

Market Heterogeneity

The Saudi car market contains two major segments: the Saudi drivers and the expatriate drivers. Each one of these segments exhibits a substantially different car purchase behaviour, and bases its purchase decision on different sets of criteria. The differences influence, among others, the size and style of cars these segments buy, the brands they prefer, the payment method they choose, and the number of cars they own.

The Saudi population makes up the larger market segment. There are no official statistics about the size of the Saudi population, but estimates put it at around 10-11 million. This population is thought to increase at a very fast pace, perhaps increasing by 4 per cent per annum. In addition, the traditional extended family structure of the Saudi household, where many generations of the family opt to live together under one roof, means a large household size. Most estimates describe the typical household as having six to ten persons (Mallakh, 1982).

The expatriate market segment prefers to buy compact cars

Under these circumstances, the Saudi market segment generally prefers large and roomy cars and it also exhibits multiple car ownership behaviour (Harvey, 1982). As they provide better satisfaction for their families' transport needs and wants, the Saudi buyers show a general preference for American and German sedans, GMC Suburban, and other four-wheel drive vehicles. However, the younger generation of Saudis, especially the high-school and university students who are entirely dependent on their fathers for financial support — part-time work to earn some discretionary income is not a tradition in Saudi Arabia — can be observed driving primarily Japanese models.

The second major segment in the car market in Saudi Arabia consists of about two to three million expatriates. The country hosts millions of guest workers each year who come to Saudi Arabia for short-duration contracts to work in areas where local manpower supply falls short of the demand levels. All grades of skills, from technical professionals and administrators to clerks and labourers, work in such fields as oil, education, health, construction, agriculture, transport, manufacturing and communication. Some of the countries that have large contingents of manpower working in Saudi Arabia include the USA, the UK, Turkey, Pakistan, India, the Philippines, Thailand, Sri Lanka, Bangladesh, Egypt and Sudan (Wilson, 1989). What makes this highly diverse group a market segment are the

similar needs and wants, and behaviour which it exhibits when making car purchase decisions.

The car purchase decisions of this market segment are guided by a number of criteria. The foremost attributes that influence their car purchase are the initial price and the operating costs. As their stay in Saudi Arabia will be limited to a few years, they search for low-priced cars among the new models or, more probably, they opt to purchase reliable second-hand cars which can be easily resold, sometimes at a profit, when they leave the country. In their car purchase decisions, expatriates are also guided by the maintenance and fuel costs. Thus, they want cars that can be repaired relatively cheaply. They also require automobiles which do not consume lots of petrol and that will not depreciate quickly.

The expatriate market segment also prefers to buy compact cars. This preference stems from the fact that most expatriates come to Saudi Arabia as bachelors. Even if they are on family status, their families will be small in size. Some of their children will be left back home to continue their education — schools for expatriate children in Saudi Arabia provide education only up to ninth grade. Consequently, as their models satisfy all of the criteria used by expatriates in arriving at car purchase decisions, most expatriates show definite preferences for Japanese and Korean models.

Marketing Considerations

Distribution Agencies

The car sellers in Saudi Arabia are not brokers or company representatives but they function as importing wholesalers and/or as retailers who hold title to the cars they market. These dealers resell their cars, which they have purchased from foreign manufacturers, at a profit. This form of business activity has two ramifications, brought about by the haphazard stock ordering approaches used by the local dealers.

In order not to be left with large amounts of unsold stock or to tie as little financial resources in their inventories as possible, some local car dealers order only when the present stocks are at a bare minimum. They also opt to order in smaller quantities, but more frequently. This strategy, therefore, inflates their average transport and insurance costs and exposes them to exchange rate fluctuations. The extensive lead time required for orders to reach Saudi Arabia, and the possibility of delays at the ports waiting for discharge or customs inspection, mean that they will suffer frequent stock-outs. As a matter of fact, some car dealers will accept reservations on future orders or they will occasionally compile waiting lists for some popular models.

Another ramification of the haphazard stock ordering approaches used by the car dealers is that some of

them will order new stocks infrequently, in very large quantities. In this manner, they hope to lower transport and insurance costs and minimize the damage they can suffer from exchange rate fluctuations. Unfortunately, as they do not relate replenishment of stocks to demand for their models, these dealers will also have frequent clearance sales after the new models arrive in Saudi Arabia. The clearance sales influence many potential buyers to delay their car purchases, waiting for these clearance sales for their favourite models. They can purchase brand new models from last year's stock, sometimes two-years-old stock, not only at old prices but also at substantial clearance discounts. This phenomenon, of course, affects the sales of the new models as the car buyers opt to purchase the previous years' models.

Distribution Arrangements

There are four different patterns of car distribution in Saudi Arabia. In one type of distribution arrangement, the Saudi car dealer is given the exclusive right, on a Kingdom-wide basis, to market all of the models that a manufacturer exports to Saudi Arabia. As the sole marketer for the foreign manufacturer's cars in Saudi Arabia, the dealer can establish its own distribution channels in the country by setting up wholly-owned sales branches and/or by franchising other independent businessmen to establish sub-dealerships in defined sales territories to function as sales agents. This type of distribution is used by the Japanese car exporters and to some extent by the European car exporters to Saudi Arabia. For example, the Japanese manufacturers such as Toyota, Nissan, Honda, Mazda and Mitsubishi are all represented in the Kingdom by sole dealers. Similarly, European car manufacturers including British Ford and Jaguar, German BMW and Mercedes, French Citroen, Swedish Volvo, and Italian Fiat are all distributed by Kingdom-wide exclusive dealerships.

The second type of distribution arrangement used by car exporters to Saudi Arabia is the granting of exclusive distribution rights to a Saudi dealer to market all of the models exported by a car manufacturer for a specific sales territory. In this case, as the defined territory would cover only a portion of the country, the dealer could rely on its own resources to blanket its sales territory with its own sales branches and would not be permitted to grant sub-dealerships to other independent businessmen. This type of distribution representation in Saudi Arabia is used by the Korean car exporters. For example, a Korean manufacturer, Hyundai Motor Company, has appointed three separate agencies to distribute its models in the eastern, central, and western provinces of Saudi Arabia respectively.

The third type of distribution arrangement used by car exporters in Saudi Arabia involves giving a Saudi dealer the exclusive right to market the specific models of a car exporter on a Kingdom-wide basis. For example, the Ford Motor Company uses this type of distribution in Saudi

Arabia. The Ford Motor Company, which returned to the Kingdom after being blacklisted for 20 years, granted the exclusive distribution of its Mercury models in Saudi Arabia to one Saudi dealer and the exclusive distribution of its Lincoln, Thunderbird, Tempo and Mustang models to another Saudi dealer.

Each shipload of cars will be sold for different prices

The fourth type of distribution arrangement used by car exporters in Saudi Arabia involves contracting with a Saudi dealer to market specific model(s) in a specific sales territory. The General Motors company prefers to use this distribution strategy in Saudi Arabia. The management of this type of distribution becomes very complex, because it involves different dealers representing different models in different geographic markets. For example, all of the different brands of General Motors, including Chevrolet, Pontiac, Oldsmobile, Buick and Cadillac are distributed by a number of dealers in different areas of the Kingdom. In addition, some of the dealers will have authorization to represent more than one of the brands of this company's cars in their territories.

Pricing Factors

The profit margin on car prices at the retail level is controlled by the Saudi Government. The Government will allow dealers to add a profit mark-up of 15 per cent on their total costs for each model. The total cost for each model is calculated using the wholesale price, transport and shipping costs, insurance cost, customs duties and other preparation costs. The total cost is submitted to the Ministry of Commerce for approval with accompanying documents proving the correctness of the cost claims. Because of the dynamic nature of exchange rates and the cost structure, each shipload of cars that arrives in Saudi Arabia will be sold for different prices than the previous arrivals.

Selling cars on the basis of instalment plans was unheard of in Saudi Arabia just a few years ago. Distributors of Japanese cars started the first application of this form of credit selling in order to compensate for their rapidly rising prices. In the light of customer preferences, especially by the expatriate market segment, this form of sales promotion was soon being offered by most of the car dealers. However, since charging interest on the unpaid balance of the debt is prohibited by Islamic beliefs, car dealers would have to set higher price tags on cars sold under instalment in order to cover their costs.

Qualifying for credit is rather difficult, because car dealers require a guarantor or a sponsor to vouch for the customer. In addition, as credit facilities are entirely arranged by car dealers (no banks would be involved in the transactions), it is thought that the financial position of some dealers has been weakened by excessive exposure to instalment selling.

Implications for Exporters

As reflected by their dominant market shares, Japanese car exporters are the market leaders in Saudi Arabia because of their well-balanced marketing strategies. These strategies are seen as congruent with the market's needs, wants, preferences and expectations. In the light of the Japanese success in Saudi Arabia, car exporters from the West should pay heed to the old dictum: fight fire with fire. In their quest to expand the meagre market shares they control, exporters from the West should be emulating some of the strengths of the Japanese car exporters.

Japanese car exporters have used innovative distribution tactics

In terms of product and price, Japanese car exporters are perceived to offer excellent value to the market. Japanese manufacturers come up with innovatively styled models every year that have technologically advanced engines. These models respond to, and satisfy customers' wants for comfort, luxury, convenience, reliability etc. Furthermore, these models are sold at reasonable prices.

However, the real Japanese strength in the Saudi Arabian market is not based on their successful product and pricing strategies. Other car exporters also have excellent products and some of these products are perceived to be better than the Japanese cars. Cases in point are the models exported from Germany by Mercedes, BMW, and Audi; from Sweden by Volvo; and from England by Rolls-Royce and Jaguar. Similarly, other car exporters offer very good value to the Saudi market, as reflected by their excellent quality and reasonable prices. Cases in point are the Korean exports by Hyundai; French exports by Citroen; and Italian exports by Fiat. As a matter of fact, a model called Lada, exported from Russia, can undercut Japanese car prices by more than 50 per cent.

The real strength of the Japanese car exporters lies in their innovative and market-driven distribution and promotion strategies in Saudi Arabia. These areas also correspond to the weaknesses of the marketing strategies used by the car exporters from the West. If these car

exporters want to expand their market shares in Saudi Arabia, they have to learn from the Japanese by studying Japanese marketing tactics in Saudi Arabia and then incorporating some of these tactics into their marketing programmes.

In terms of distribution, Japanese car exporters have been innovative with their tactics in Saudi Arabia. They work closely with their exclusive dealers and give them all the support they need to establish the distribution networks which would enable these dealers to achieve wide and deep (intensive) coverage of the Saudi market. Their support includes prompt deliveries, product literature in Arabic, exhibition participation, co-operative advertising and product training. They also provide financial and technical assistance to their dealers so that they can develop sophisticated and computerized inventory control systems and carry satisfactory levels of spare parts.

In order to protect their reputation for reliable after-sales service, Japanese car exporters assist their dealers to establish repair and maintenance facilities in convenient locations. While providing in-Kingdom and out-of-Kingdom training programmes for their dealers' workforces, Japanese exporters occasionally bring in expert maintenance teams from their own factories in Japan to supplement the repair service capabilities of their dealers in Saudi Arabia.

In terms of promotion, Japanese car exporters have also been very innovative with their tactics in Saudi Arabia. They work, together with their dealers, in order to cultivate in them a marketing philosophy based on aggressive sales promotion and advertising. There are a number of signs that Japanese exporters have been successful in achieving this objective. For example, the dealers of the Japanese cars were the first to implement a trade-in policy in Saudi Arabia. They were the first to use a rebate for new car purchases. They also pioneered the instalment plan in Saudi Arabia. These dealers were first to increase the warranty period — doubling the period to 40,000 kilometres or 24 months, whichever comes first. Japanese car dealers have also been taught by their mentors to reward their customers with premiums and free gifts, and to use extensively games of chance and contests as part of their sales promotion programmes.

Japanese car exporters and their dealers make extensive use of advertising. One medium they use very often is local newspapers. Advertisements are placed in newspapers either by the Japanese car exporters or by the local dealers, who are reimbursed for some portion of their advertising expenditures by their Japanese sponsors. They use this medium very effectively by frequently placing half-page or full-page advertisements containing culturally relevant messages. Whenever Japanese cars win awards or come in first place in car rallies and races, these occasions become the message

in the advertisements to persuade customers about the technological and performance superiority of Japanese cars. Japanese car dealers also make extensive use of the outdoor advertising sources available in Saudi Arabia. These sources include lamp-post signs, stadium panels, uni-pole billboards, and bus and bus-stop posters.

Even though advertising on Saudi television has been permitted since 1986, Japanese car exporters and their dealers have not been enthusiastic in using this medium. A similar behavioural pattern can be observed among the other car exporters to the Kingdom and their distributors. One explanation proposed for the meagre use of the television medium for advertising cars is its undeveloped nature (Tuncalp, 1992). However, considering the importance of television to social life in Saudi Arabia (*Arab News*, 6 March 1990), unwillingness on the part of foreign car exporters and their dealers to use television advertising may be their major marketing weakness in Saudi Arabia.

As a closing note, despite the fact that the Saudi car market is lucrative, it is also difficult to do business in (Tuncalp and Yavas, 1987). A number of traditional, social and religious considerations as well as the heterogeneity of the people making up the market require a marketing programme built on reliable market information and marketing intelligence (Tuncalp, 1988a). This marketing programme should also be guided by a strategy that is innovative enough to give the exporter a distinct advantage over the keen competition in the car market (Tuncalp, 1988b).

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