MEMORANDUM

**Date : 10-04-1421 H (12-07-2000)**

**cc : M. Dobaib (Summary)**

**From : Fahad Al Haqbani A. Al Shabaan (Summary)**

**M. Al Mazroo**

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**TSCD**

**Ref. : Appl. # 3145 – National Factory for Polyethylene Tanks, Buraidah**

**Subject : Market Report**

# Summary & Conclusion

This is a proposal to establish a factory in Buraidah to produce Polyethylene (PE) water tanks with production capacity of 12,000 units per annum. The total project cost has been estimated by the sponsor to be SR 5.947 million to be financed as follows:

Equity SR 1.487 million

Bank Loan SR 1.487 million

**SIDF Loan SR 2.973 million**

The project is a sole proprietorship owned by Mr. Ahmed Abdullah Aba Al-Khail (Saudi). The sponsor has been trading in PE tanks since 1997. He has experience in selling imported PE tanks by Al-Shalal Establishment, health water station.

The project is fully implemented and started commercial production in March 2000. The sponsor already produces 6 sizes of PE tanks ranging between 800 liter and 4,000 liter capacities which are used mainly as concise water reservoirs. The total sales of the first 4 months have reached SR 569,375 (707 PE tanks).

The Ministry of Industry and Electricity has issued an industrial license # 1064 dated 27/10/1418H, that permits the production of 12,000 PE tanks, equivalent to 504 tpa. According to TSCD, the installed capacity of this project is about 10,240 tanks based on one shift, equivalent to 430 tpa.

Water tanks can be classified into fiberglass, steel, stainless steel, cement, and plastic (PE) tanks. Fiberglass tanks are the most common tanks in the Saudi market. In the mid of 1990s, PE tanks were introduced in the Saudi market and started replacing fiberglass tanks. PE tanks are substitute products for fiberglass, cement, stainless steel and steel tanks. Tanks produced from PE are probably the best types of tanks in terms of health and heat resistance.

Prior to 1998, the local market of PE tanks was served by imports. This has changed when Hisham & Jamal Al-Zamil Company, Riyadh, started local PE tanks production in 1998. Currently, supply of PE tanks comes through local manufacturers and imports. The number of licenses issued until June 2000, is 12 licenses with a total licensed capacity of 155,000 units of PE tanks. However, there are 6 existing PE tank factories (all Non-SIDF) in the Kingdom with a total production capacity of 52,000 units p.a.

The sales of PE tank producers in the Kingdom are growing rapidly. The product has become known in the local market only in the last 2 years. Local production represents the major market for PE tanks i.e. 73%, while imports represent the remaining 27% in 1999.

We have estimated the demand of PE tanks based on local sales and imports. The demand for PE tanks is estimated to be about 27,800 units in 1999 increasing to 37,900 units in the year 2005. PE tank market is improving in terms of size. However, the threat that will hinder the investment in this sector is the increasing number of suppliers.

Prices of PE tanks are affected by the prices of PE resins supplied by Sabic and level of competition in the local market. From discussions with producers we felt that prices in general have been somewhat stable and are expected by majority to go down because of tough competition in the Kingdom.

The locally made PE tanks are facing competition from the tanks made of other materials such as fiberglass and stainless steel. PE tank producers face high competition from fiberglass tank manufacturers and it is unlikely that PE tanks will completely replace the fiberglass tanks in near future.

**CONCLUSION & ASSESSMENT OF SUCCESS FACTORS**

SIDF Plastic Industry Study did not cover PE tanks. All existing PE tank producers have started production between 1998 and 2000 and some of them are in the trial production. Therefore, the installed capacity in the Kingdom is higher than the local demand. The local suppliers’ sales and number of industrial licenses are increasing. Out of 12 industrial licenses, 4 were issued in 1420H. The assessment of success factors for this project is summarized below:

1. The sales performance of the factory has shown good growth for last four months.
2. The Italian Roto-molding machine will be capable of producing high quality PE tanks.
3. The sponsor’s existing products are considered to be high quality products.
4. The sponsor has gained adequate managerial experience and knowledge of the local market through his other business activities.
5. Project’s location which is in Qassim will give the sponsor the opportunity to serve Central and Northern Regions easily.
6. Growing demand for PE tanks in the Kingdom market which may require additional supply in the future.
7. The sponsor’s existing prices are competitive with other local products.

Recommendation

The project is recommended from a marketing point of view based on SIDF’s sales forecast, recommended prices and the fulfillment of the following condition:

1. The sponsor is to hire a qualified marketing manager acceptable to SIDF.

## FAHAD AL-HAQBANI

**1. PROJECT**

**1.1. Ownership**

This is a proposal to establish a factory in Buraidah to produce Polyethylene (PE) water tanks. The total project cost has been estimated by the sponsor to be SR 5.947 million to be financed as follows:

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The project is a sole proprietorship owned by Mr. Ahmed Abdullah Aba Al-Khail (Saudi). The project is fully implemented and started commercial production in March 2000. The sponsor already produces 6 sizes of PE tanks ranging between 800 liter and 4,000 liter capacities which are used mainly as concise water reservoirs. The total sales of the first 4 months have reached SR 569,375 (707 PE tanks).

**1.2. Industrial License**

The Ministry of Industry and Electricity has issued an industrial license # 1064 dated 27/10/1418H, that permits the production of 12,000 PE tanks, equivalent to 504 tpa.

**1.3. Production Capacity**

The proposed production capacity as per the feasibility study is 12,000 PE tanks p.a. on one shift basis, equivalent to 535 tpa. According to the feasibility study, the capacity is expected to be fully utilized by the third year of production, starting with 50% of capacity in year-1 and increasing utilization to 75% in year-2 and 100% in year-3. The sponsor is proposing the following production program:-

### Table 1: Sponsor’s Proposed Production Program (Unit)

|  |  |  |  |
| --- | --- | --- | --- |
| **Tank Size** | **Year-1** | **Year-2** | **Year-3** |
| 800 Liters | 1,980 | 2,970 | 3,960 |
| 1,000 Liters | 1,980 | 2,970 | 3,960 |
| 1,500 Liters | 840 | 1,260 | 1,680 |
| 2,000 Liters | 480 | 720 | 960 |
| 3,000 Liters | 360 | 540 | 720 |
| 4,000 Liters | 360 | 540 | 720 |
| **Total** | **6,000** | **9,000** | **12,000** |
| **Capacity utilization** | 50% | 75% | 100% |

According to TSCD, the installed capacity of this project is about 10,240 tanks based on one shift, equivalent to 430 tpa.

**2. PRODUCT DESCRIPTION**

Water tanks can be classified into fiberglass, steel, stainless steel, cement, and plastic (PE) tanks. Fiberglass tanks are the most common tanks in the Saudi market. In the 1970s, the steel tanks were widely used in the Kingdom. In 1980s, fiberglass tanks replaced the steel tanks due to their advantages compared to steel tanks. In the mid of 1990s, PE tanks were introduced in the Saudi market and started replacing fiberglass tanks. PE tanks are substitute products for fiberglass, cement, stainless steel and steel tanks. Tanks produced from PE are probably the best types of tanks in terms of health and heat resistance. The main advantages, which arise by comparing PE tanks to other tanks, are as follows:

1. Excellent heat resistance in high temperature. They are made of three to four layers.
2. PE tanks are more hygienic than other alternatives. Polyethylene is absolutely non-toxic and is in compliance with international health regulations.
3. PE tanks are protected from the Ultraviolet (UV).
4. PE tanks are lighter compared to cement, steel, and fiberglass tanks.
5. Service life of PE tanks can exceed 20 years under rated temperature and weather conditions.
6. PE tanks are easy to replace and maintain.
7. PE tanks are more flexible. To increase the storage capacity, all what is required is an additional tank and joining pipe.

PE tanks are offered in a variety of sizes and shapes for the use and choice of customers. They have different sizes that range from 300 to 25,000 liter capacity. The most common sizes are from 800 to 4,000 liter capacity. PE tanks come in different shape e.g. horizontally cylindrical tanks, oval tanks, rectangular tanks, and square tanks. Also, they can be more than one layer with or without insulation layer.

One of the main advantages of PE tanks is their long life. Most of the local suppliers give a 5-year Guarantee on their PE tanks. Likewise, the sponsor gives a 7-year Guarantee on all of his products (*see Appendix-1*). According to the sponsor, he gives a 7-year Guarantee on his products because the products are higher quality than other local products.

The sponsor already produces 6 sizes of PE tanks ranging between 800 liter and 4,000 liter capacities which are used mainly as concise water reservoirs. The products are made from HDPE using Roto-Molding process. The sponsor’s products are made of 3-4 layers. The sponsor can increase his product range by adding more moulds.

**3. SPONSOR’S BACKGROUND & EXPERINCE**

The sponsor has been trading in PE tanks since 1997. He has experience in selling imported PE tanks by Al-Shalal Establishment, health water station. According to the sponsor, he has been trading in health water through his health water station for more than 7 years. In 1997, he started installation of PE tanks for his customers to be used for health water. The PE tanks were imported for the Establishment from Cloisal Company, UAE. The sponsor found that, there is a good demand for PE tanks in the local market. Also, his sales and experience in selling imported PE tanks have been increasing during the last three years. These factors led the sponsor to set up a PE tank factory in the Kingdom.

Al-Shalal’s total sales of PE tanks have been estimated to be about SR 1,740,947 in 1999. The Establishment’s actual sales performance of water tanks is shown below:

**Table 2: Al-Shalal Establishment’s Sales**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Product** | **1997** | | **1998** | | **1999** | |
| **SR** | **Unit** | **SR** | **Unit** | **SR** | **Unit** |
| PE Tanks | 115,349 | 230 | 260,978 | 522 | 179,203 | 358 |
| Fiberglass Tanks | 119,485 | 265 | 47,518 | 106 | 33,175 | 74 |
| **Total** | **234,834** | **495** | **308,496** | **628** | **212,378** | **432** |

From the above table, it is clear that the sponsor’s sales have shown a high growth in volume and value in 1998. In 1999, sales of water tanks have decreased by 31% because the sponsor reduced his imports to start selling his own products.

The PE tank plant (subject project) has started commercial production since March 2000. The total sales for the first 4 moths of operation are shown below:

**Table 3: Sponsor’s Sales Value (March – June 2000)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | **March** | April | **May** | **June** |
| Sales (SR) | 56,850 | 58,150 | 196,430 | 257,945 |
| **Growth %** | - | 2% | 238% | 31% |

The total sales of the first 4 months have reached SR 569,375 (707 PE tanks). The total sales volume of PE tanks by size for the first 4 months are shown below:-

**Table 4: Sponsor’s Sales Volume (March –June 2000)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Size | **800 L** | **1000 L** | **1500 L** | **2000 L** | **3000L** | **4000 L** |
| Total Sales (Unit) | 203 | 202 | 162 | 97 | 25 | 18 |

Although the factory is new in its business, the sponsor has achieved good sales in the first 4 months. The total sales are expected to reach 2,000 PE tanks by the end of the year 2000. The increases are substantially due to quality and competitive pricing of the sponsor’s products.

**4. SUPPLY**

**4.1. Local Production**

Prior to 1998, the local market of PE tanks was served by imports. This has changed when Hisham & Jamal Al-Zamil Company, Riyadh, started local PE tanks production in 1998. It should be noted that H & J Al-Zamil Company, Riyadh, has no reference or connection to Al-Zamil Plastic Industries Company (SIDF Inv. # 1210), Dammam.

Currently, supply of PE tanks comes through local manufacturers and imports. The number of licenses issued until June 2000, is 12 licenses with a total licensed capacity of 155,000 units of PE tanks as indicated in the last list of plastic tanks licenses (*for more details see Appendix-2*). However, there are 6 existing PE tank factories (all Non-SIDF) in the Kingdom with a total production capacity of 52,000 units per annum.

The largest Saudi producer of PE tanks, H & J Al-Zamil Company, started commercial production in July 1998. The plant is located in Al-Mozahemiah, west of Riyadh. The Company is owned by Hisham and Jamal Abdulrahman Al-Zamil. They have about 15,000 units of PE tanks capacity, which represents about 29% of the total KSA capacity. Al-Zamil is the only local PE tank producer who has the ISO 9002 Certificate.

Al-Morgan Fiberglass Factory, Dammam, which is owned by Al-Mohaidib Group was specialized in producing fiberglass tanks. In 1997, they installed a PE tank machine to start production of PE tanks locally. However, they faced some technical problems and the output could not be sold in the market. Therefore, they stopped producing PE tanks and tried to resolve the technical problems regarding the product quality. In 1999, they bought a new PE tank machine to be replaced with the old one and restarted production in September 1999. Now the factory produces 30-40 PE tanks a day and there is no technical problem facing the plant.

Al-Mukhtar Fty. for Water Tanks, Al-Ahsa, is owned by Mr. Wasil Al-Shayeb. The owner of the factory used to import PE tanks from Qatar and the UAE and sold them in the Eastern Region. In 1999, he set up a PE tank factory in Al-Ahsa with an installed capacity of 8,000 units per annum.

Saudi Polycon Company, Al-Khobar, is owned by Mr. Abdullah Al-Hussaini and Polycon Company, UAE. The Saudi owner was the agent of Polycon Company in Saudi Arabia. Polycon Company, UAE, is a large PE tank producer in GCC and was one of the major foreign suppliers in the Saudi market. In 1999, Mr. Al-Hussani and Polycon Company decided to set up a PE tank plant in KSA using the Polycon experience in this sector. In the year 2000, the plant started commercial production of PE tanks with an installed capacity of 4,000 units per annum. It should be noted there is no relationship between this factory and Al-Hussani Fiberglass Factory in Riyadh.

Saudi Factory for Water Tanks, Dammam, is owned by Mr. Tawfiq Al-Khamiss. The factory started commercial production of PE tanks with an installed capacity of 5,000 units per annum in 1999.

SIDF has received a loan application from the Technology Company for Plastic Industries (P.S. # 1266), Jubail. The project is proposing to produce PE tanks with an installed capacity of 200 tpa, equivalent to about 5,000 units.

The owners of National Fiberglass Factory, Dammam, have expressed their interest in future production of PE tanks. The factory is the largest fiberglass tank producer in the Kingdom.

It is clear that most of local producers started production of PE tanks in 1999 and have only one Roto-molding machine. Also, all of them are not SIDF investments. The KSA capacity and local sales of factories are as follows:

**Table 5: The Installed Capacities and Sales of Local Producers of PE Tanks (Unit)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | **Sales** | | |
| **Factory** | **Location** | **SIDF Inv. #** | **Capacity\*** | **1998** | **1999** | **2000**  **Est.** |
| H & J Al-Zamil Company | Riyadh | Non-SIDF | 15,000 | 2,150 | 9,620 | 11,000 |
| Al-Mukhtar Fty. for Water Tanks | Al-Ahsa | Non-SIDF | 8,000 | 0 | 3,580 | 3,800 |
| Al-Morjan Fiberglass Factory | Dammam | Non-SIDF | 8,000 | 0 | 4,000 | 4,300 |
| Saudi Factory for Water Tanks | Dammam | Non-SIDF | 5,000 | 0 | 3,200 | 3,500 |
| Saudi Polycon Fty. (Al-Hussaini) | Al-Khobar | Non-SIDF | 4,000 | 0 | 0 | 1,500 |
| National Fty. for PE Tanks | Buraidah | Appl. # 3145 | 12,000 | 0 | 0 | 2,000 |
| **Total** | | | **52,000** | **2,150** | **20,400** | **26,100** |

***\* Based on one shift.***

Production of PE tanks does not require high capital investment. The market trend regarding PE tanks as substitute products for fiberglass and stainless steel tanks, encourages Saudi investors to enter this business. Therefore, six producers have started production within the last two years. Also, 6 new industrial license for the production of PE tanks were obtained between 1418H and 1420 H. In the next few years we think there will be additional suppliers in the Kingdom.

**4.2. Imports**

Traders import PE tanks under the Harmonize Code # 39251000 (Plastic Reservoirs and Similar Containers, Over 300 Liters Capacity). According to Foreign Trade Statistics Data, the Kingdom’s total imports of PE tanks are shown in the following table.

#### **Table 6: Total KSA Imports of PE Tanks**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Imports** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** |
| **Quantity (Unit)** | 1,700 | 3,480 | 6,380 | 7,600 | 7,200 | 7,400 |
| **Value (SR ‘000)** | 1,872 | 2,552 | 2,057 | 3,137 | 3,017 | 3,107 |

The average imports of PE tanks during the period 1994-1999 were about 5,620 units. The majority PE tanks are imported from the UAE and Turkey. In addition to these countries, there is a considerable amount of one-time imports that came from Oman during 1999. The products coming from UAE are good quality products. They are considered by users to be very good quality products.

Imports of PE tanks are expected to decline by 50% in the year 2000. The majority of traders agreed that imports of PE tanks would decline during the next three years due to the increase of local production.

Cloisal Company of UAE and Polycon of UAE are major suppliers of PE tanks in the Saudi market. They are leading producers of PE tanks in the GCC countries. They have been supplying most of the major traders in the local market. Their products are considered by users to be good quality products.

**5. DEMAND**

**5.1. Sponsor’s Estimate of KSA Demand**

The sponsor has provided estimated demand for PE tanks based on the imports and estimated local production. The following table shows the sponsor’s estimate of demand for PE tanks:

**Table 7: Sponsor’s Estimate of Demand (Unit)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** |
| **Total demand** | 61,352 | 63,193 | 65,089 | 67,041 | 69,052 | 71,124 | 73,257 |
| **Growth Rate** | - | 3% | 3% | 3% | 3% | 3% | 3% |

The sponsor calculated the PE tanks demand based on imports plus local production. He ignored most of the local producers and added some inactive licensed factories. He also thinks that imports of PE tanks represent 11% of the total KSA demand. We think that sponsor was very optimistic when he estimated the demand also his methodology for assessment of PE tanks demand does not seem to be accurate.

**5.2. SIDF Assessment of Demand**

The demand for PE tanks is influenced by several factors such as construction materials, government regulations, environmental issues, population, and the general growth in the gross domestic product.

PE tanks are considerably new to the Saudi market and are intended to replace fiberglass and stainless steel tanks. Sales of PE tanks are expected to be significant compared to fiberglass tanks due to their advantages and availability in the local market. PE tank producers indicate that, it is likely in the near future that PE tanks will completely replace the water fiberglass and stainless steel tanks.

Major local producers such as Al-Zamil, Al-Morgan, and others estimate the total market size for 1999 to be around 30,000 units of PE tanks.

SIDF’s estimate of market size is based on local sales and imports of PE tanks. We contacted the local producers and some traders and obtained their sales. Based on that, the Kingdom market size of PE tanks, which is total sales of local suppliers plus imports, can be calculated as follows:

**Table 8: Total KSA Demand of PE Tanks for 1999 & 2000 (Unit)**

|  |  |  |
| --- | --- | --- |
| Market Size | **1999** | **2000 Est.** |
| Total Local Sales | 20,400 | 26,100 |
| Total Imports | 7,400 | 3,700 |
| **Total Market Size** | **27,800** | **29,800** |

The sales of PE tank producers in the Kingdom are growing rapidly. The product has been in the local market since the mid of 1990s and became known only in the last 2 years. Local production represents the major market for PE tanks i.e. 73%, while imports represent the remaining 27% in 1999.

PE tank market is improving in terms of size. However, the threat that will hinder the investment in this sector is the increasing number of suppliers.

The majority of traders agreed that market demand of PE tanks would grow by 5-8% during the next five years due to the increase of consumer awareness of product’s advantages. We estimate PE tanks market to grow by 5% per annum based on the following factors:

1. The surveyed producers and traders agreed that the future market would notice a growth of 5-8% per annum.
2. No major changes are expected in the Saudi economy and construction sector.
3. Users of fiberglass tanks will take a long time to completely shift from fiberglass tanks to PE tanks.

Based on our market survey and the current market size of PE tanks, the future demand will be as follows:-

**Table 9: SIDF Forecast of KSA Demand For PE Tanks (Unit)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** |
| PE Tanks | 29,800 | 31,300 | 32,800 | 34,400 | 36,100 | 37,900 |
| **Growth %** | **5%** | | | | | |

Using of PE tanks as substitute for other tanks is still a new trend in the Kingdom. Customers are still not fully aware of the advantages of using PE tanks. In the local market, PE tanks are mainly used for water supply and used by higher level of the market.

Although PE tanks are superior to most of other tanks substitutes, their consumption in the Kingdom remained in very low volume in the last few years. PE tanks did not enjoy a wide popularity in the Saudi market for the following reasons:

1. The unavailability of advertisement. Most of the consumers did not have a clear understanding of the advantages of the product verses other substitutes.
2. The quality of PE tanks was low when the products were introduced to the local market.

As regards fiberglass tanks as a major substitute for PE tanks, the demand of water fiberglass tanks is estimated by SIDF to be as follows:-

**Table 10: Total KSA Demand of Water Fiberglass Tanks (Unit)\***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** |
| Demand of Fiberglass Tanks | 40,600 | 41,300 | 42,500 | 43,800 | 45,100 | 46,500 |
| Growth Rate | - |  | 3% | 3% | 3% | 3% |

***\*Source: MSCD’s Fiberglass Industry Study, 1998.***

Unfortunately, the market size of other tanks i.e. stainless steel tanks used for water, and tanks made of cement are not available.

**6. SALES TARGET & MARKET SHARE**

**6.1. Sponsor’s Sales Forecast**

Sponsor plans to sell his products locally. He plans to satisfy the local market first and then start exporting to the GCC countries. He does not have any exporting plan for the next five years. The sponsor assumes that the sales for the next five years will build up as follows:

**Table 11: Sponsor’s Sales Forecast 2001-2005 (Unit)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Tank Size** | **2001** | **2002** | **2003** | **2004** | **2005** |
| 800 Liters | 1,980 | 2,970 | 3,960 | 3,960 | 3,960 |
| 1,000 Liters | 1,980 | 2,970 | 3,960 | 3,960 | 3,960 |
| 1,500 Liters | 840 | 1,260 | 1,680 | 1,680 | 1,680 |
| 2,000 Liters | 480 | 720 | 960 | 960 | 960 |
| 3,000 Liters | 360 | 540 | 720 | 720 | 720 |
| 4,000 Liters | 360 | 540 | 720 | 720 | 720 |
| **Total** | **6,000** | **9,000** | **12,000** | **12,000** | **12,000** |
| **Capacity utilization** | 50% | 75% | 100% | 100% | 100% |

Sponsor believes that he will sell about 100% of his production in the third year of operation. The sponsor’s sales forecast is based on an estimated market size that is different from the actual. Sponsors’ plan to sell 50%of the project capacity in the first year of operation appears to be very high due to the market size which is smaller than the sponsor’s estimate. We think the sponsor sales forecast is very optimistic especially in the third year due to the market conditions.

**6.2. SIDF’s Recommended Sales Forecast / Market Share**

SIDF would forecast sales only in KSA as the sponsor has no previous experience in export markets and needs to possess further international qualifications in order to compete internationally. Our sales forecast for this project will consider both the sponsor’s historical performance through his business and the current situation of demand and supply in the market. SIDF’s recommended sales forecast is as follows:

**Table 12: SIDF’s Sales Forecast 2001-2005 (Unit)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Tank Size** | **2001** | **2002** | **2003** | **2004** | **2005** |
| 800 Liters | 1,300 | 1,600 | 2,100 | 2400 | 3,000 |
| 1,000 Liters | 1,200 | 1,500 | 2,000 | 2,300 | 2,700 |
| 1,500 Liters | 600 | 750 | 1,000 | 1,200 | 1,500 |
| 2,000 Liters | 350 | 500 | 550 | 600 | 650 |
| 3,000 Liters | 300 | 350 | 450 | 500 | 600 |
| 4,000 Liters | 250 | 300 | 400 | 500 | 550 |
| **Total Sales** | **4,000** | **5,000** | **6,500** | **7,500** | **9,000** |
| **Market Share** | 13% | 15% | 19% | 21% | 24% |

We have reduced sponsor’s sales to be in line with the local market demand and project’s installed capacity. The recommended sales forecast would yield very good market shares for this project. This is due to the number of local producers in the KSA market and the sponsor’s product quality. As the local market demand is not considered large enough in the long run, the project should look for other international markets through exporting if the sponsor want to increase his sales.

The sponsor is not expected to face difficulties in selling the above sales quantities in the local market due to his previous experience in this business. It should be noted that these quantities can be increased if the sponsor look for further international markets.

**7. PRICING**

**7.1. Sponsor’s Prices**

Sponsors provided current market, proposed and existing prices for his products. The sponsor’s and current market prices according to the feasibility study are as follows:

**Table 13: Sponsor’s proposed, existing & market prices (SR /Unit)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Product** | **Average Market Prices** | **Sponsor Proposed Prices** | **Sponsor’s Existing**  **Prices** |
| **800 Liters** | 450 | 250 | 500 |
| **1,000 Liters** | 750 | 550 | 650 |
| **1,500 Liters** | 1,200 | 900 | 900 |
| **2,000 Liters** | 1,500 | 1,300 | 950 |
| **3,000 Liters** | 1,800 | 1,500 | 1,550 |
| **4,000 Liters** | 2,200 | 1,700 | 1,850 |

It is clear from the above table that the proposed prices are lower than the existing prices for the sponsor’s products. The sponsor claims that he uses this prices in his financial evaluation for some conservative reasons. Sponsor also claims that he can reduce his prices in case competition increases in the local market.

Sponsor’s pricing strategy is that prices must be very competitive if it is to convince customers to switch from fiberglass and stainless steel tanks to PE tanks. Some price discounts would be adopted to gain steady numbers of clients and preserving the old ones. These price discounts are so effective for big clients such as contractors.

**7.2. SIDF’s Recommended Prices**

A wide range of prices for PE tanks is found in the local market. This is due to number of factors such as:

1. Quality level.
2. Type of design.
3. Thickness.
4. Number of layers.
5. Type of insulation.
6. Quality guarantee.

High quality products always have insulation layers and quality guarantees some times for 5 years. There is no guarantee for low quality products, no insulation and some times the insulation layer is very low quality. The pricing strategies of all PE tank producers are that prices must be very competitive if it is to convince customers to switch from fiberglass tanks to PE tanks and encourage new consumers to use PE tanks.

Prices of PE tanks are affected by the prices of PE resins supplied by Sabic and level of competition in the local market. From discussions with producers we felt that prices in general have been somewhat stable and are expected by majority to go down because of tough competition in the Kingdom.

Market prices were collected from suppliers of the fiberglass and PE tanks. In the following table we summarize the current market and SIDF recommended prices:-

**Table 14: Comparison between the Market Prices**

**and SIDF Recommended Prices (SR/Unit)\***

|  |  |  |  |
| --- | --- | --- | --- |
| **Size (Liter)** | **Ex- Factory Prices (SR / Unit)** | | |
| **Fiberglass Tanks** | **PE Tanks** | **SIDF Recommended Prices** |
| **800 Lit.** | 300-400 | 450-550 | 500 |
| **1000 Lit.** | 500-600 | 650-700 | 650 |
| **1500 Lit.** | 600-750 | 850-950 | 900 |
| **2000 Lit.** | 700-800 | 900-1,000 | 950 |
| **3000 Lit.** | 1,200-1,400 | 1,500-1,650 | 1,550 |
| **4000 Lit.** | 1,400-1,6 00 | 1,650-1,950 | 1,850 |

***\* Note: All prices are ex-factory prices.***

It is clear that PE tanks are more expensive compared to fiberglass tanks. However, the prices are reasonable considering the advantages of PE tanks and their long life.

It can be seen that the sponsor existing prices are within average prices of the local market. We think that, the sponsor can target the local market easily with these prices. Therefore, we recommend sponsor’ existing prices for PE tanks because we found them very competitive to other local products and acceptable in the market.

**8. COMPETITION**

Major competitive factors in PE tank sector are price, quality and style in addition to providing some services to customers e.g. installation, repair, delivery, etc.

The competition in the low-quality segment is price-oriented and suppliers of this segment must be cost-efficient to compete. To do so, suppliers usually concentrate on standard products and designs to achieve economies of scale permitted by mass production. The lack of awareness of customers with respect to the inherent quality problems as well as the desire for saving create substantial demand from price-sensitive buyers for such products.

The competition in the medium-quality segment is governed by both price and quality. The competition in the high-quality segment is governed by product quality and thus is insulated against price-oriented competition.

The locally made PE tanks are facing competition from the tanks made of other materials such as fiberglass and stainless steel for two reasons. Firstly the customers are used to buy these tanks for long time and secondly the high price of the PE tanks discourage them from buying these products.

PE tank producers face high competition from fiberglass tank manufacturers and it is unlikely that PE tanks will completely replace the fiberglass tanks in near future.

This project will face competition from **fiberglass tanks** where they are well-known and are cheaper than PE tanks. Price is the main if not the only factor on which users select fiberglass tanks. Some users confirm that the fiberglass tanks provide satisfactory results to them. The quality is not important factor in fiberglass tank segment. Some of the main competitors in fiberglass segment are:

- National Fiberglass Factory, Dammam

- Al-Hussaini Ind. Group, Riyadh

- Sarah Fiberglass Factory, Riyadh (Inv. # 1610)

- Al-Mangour Factory, Jeddah

To compete in fiberglass segment, sponsor needs to reduce his prices and to have a trained sales team to cover the largest number of traders and users. Also, brochures are very important to show the advantages of PE tanks.

The project will also face severe competition from local PE tank producers. Al-Zamil Company is the major competitor for this project because they are producing almost the same products and both of them are located in the Central Region. The competition between sponsor and Al-Zamil is already existing. Each factory is trying to provide the lowest prices and best customer services.

Large water tanks producers such as Al-Zamil Company compete in all KSA reigns because they have more than distributor in each region. On the other hand, small producers compete only in their regions and face competition from large producers.

In order to compete in PE tank market, sponsor must be able to supply very high quality products and good customer services. Without the ability to produce high quality product, sponsor might find it difficult to enter this segment. It is likely that sponsor’s machinery should be able to produce high quality products.

Regarding the imported PE tanks, the UAE and Omani tanks will be the main foreign competitors for this project. However, producers outside the region can not compete in the Kingdom because of the high cost of freight. This will be a competitive advantage for this project. Another competitive advantage is that availability of the raw materials locally by Sabic.

**9. MARKETING STRATEGY & OBJECTIVES**

The sponsor’s overall objectives are to be one of the leading suppliers of quality PE tanks in the Kingdom, to increase his market share in the market, to serve customers’ needs and to maximize sales with reasonable profit.

The sponsor plans to have two marketing strategies with objective of achieving maximum sales in the Kingdom at the best possible price. The first strategy is to sell through traders to all users in the Kingdom. The second strategy is to sell directly to the large customers such as constructors by his sales team.

The company marketing strategy seems to be dependent on distribution through traders by providing competitive pricing, short delivery time and selective payment terms.

Plumbers will be encouraged by the sponsor to push users to install PE tanks and they will be provided with a full details about the advantages of using PE tanks.

Sponsor’s marketing plan is targeting fiberglass tank users and convincing them to switch to PE tanks. Also, distributors of tanks will be provided with full information about the PE tanks advantages to explain them to customers.

**10. DISTRIBUTION & SALES ORGANISATION**

Direct sales from the factory to end-users or retailers are a popular practice among local tank producers and some of them have their showrooms. Large producers tend to sell their products in all KSA regions. Most of them have one or two distributors in each region. On the other hand, small producers tend to center their sales in the region that they located in. This is mainly due to their small output and the cost of transportation which some can not afford.

PE tanks are mostly sold through factories’ sales offices or outlets. In some cases, they are sold though independent tank distributors or sanitary applications traders.

The sponsor intends to have a showroom in Riyadh. He also plans to go in two ways to penetrate the Saudi market. First way will be through sales team. Salesmen will visit major contractors and traders over the Kingdom and they will market the products. The second way will be direct sale though his plant in Buraidah and the showroom in Riyadh.

Fore large projects, the company will deal directly with them because large projects prefer to buy from the producers directly. For the open market, independent distributors will take care of company’s products.

The marketing department will be headed by an expert marketing manager assisted by three sales representatives. The project will be under supervision of Mr. Ahmed Aba Al-Khail, the owner. He has good marketing experience in the Saudi PE tank market. We think that Mr. Aba Al-Khail is capable and has the ability to manage this project.

We think the number of sales team is reasonable compare to the size of project. However, we are concerned about the quality of marketing manger and sales team that the sponsor planning to hire as this would affect the project’s revenue generation.

**11. ADVERTISING AND SALES PROMOTION**

Tank producers spend little on promotion and advertising. The most common promotional tools used by tank factories are as follows:

1. Catalogues.
2. Posters that can be sticked on new building under construction.
3. Participate in local trade exhibitions.
4. Distribution and customer service.
5. Discounts and credit terms for constructors.

The sponsor will advertise their products through catalogues, distribution, customer service, and participate in local and international trade exhibitions. He plans to spend little on promotion and advertising due to the nature of the industry. We agree with this approach because advertising and sales promotion is not that important in this sector.

**12. CONCLUSION & ASSESSMENT OF SUCCESS FACTORS**

SIDF Plastic Industry Study did not cover PE tanks. All existing PE tank producers have started production between 1998 and 2000 and some of them are in the trial production. Therefore, the installed capacity in the Kingdom is higher than the local demand. The local suppliers’ sales and number of industrial licenses are increasing. Out of 12 industrial licenses, 4 were issued in 1420H.

The project is fully implemented and commercial production has started since March 2000. The assessment of success factors for this project is summarized below:

1. The sales performance of the factory has shown good growth for last four months.
2. The Italian Roto-molding machine will be capable of producing high quality PE tanks.
3. The sponsor’s existing products are considered to be high quality products.
4. The sponsor has gained adequate managerial experience and knowledge of the local market through his other business activities.
5. Project’s location which is in Qassim will give the sponsor the opportunity to serve Central and Northern Regions easily.
6. Growing demand for PE tanks in the Kingdom market which may require additional supply in the future.
7. The sponsor’s existing prices are competitive with other local products.

**Recommendation**

The project is recommended from a marketing point of view based on SIDF’s sales forecast, recommended prices and the fulfillment of the following condition:

1. The sponsor is to hire a qualified marketing manager acceptable to SIDF.

### Appendix -2

**Licensed Factories for the Production of PE Tanks (Unit)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Industrial License** | | Company Name | **Location** | **Licensed Capacity** | **Installed Capacity** | **Status** |
| No. | Date |
| 401 | 1416 | H & J Al-Zamil Company | Riyadh | 15,500 | 15,000 | Active Non-SIDF |
| 1064 | 1418 | National Factory for PE Tanks | Buraidah | 12,000 | 12,000 | Active (Appl. # 3145) |
| 172 | 1421 | Al-Morgan Fiberglass Fty. | Dammam | 12,000 | 8,000 | Active (Non-SIDF) |
| 987 | 1419 | Saudi Polycon Company. | Khobar | 4,000 | 4,000 | Active Non-SIDF |
| 931 | 1419 | Saudi Factory for Water Tanks | Dammam | 30,000 | 5,000 | Active (Non-SIDF) |
| 1010 | 1418 | Al-Mukhtar Water Tanks Fty. | Al-Ahsa | 12,000 | 8,000 | Active (Non-SIDF) |
| 231 | 1420 | The Tech. Co. for Plastic Industries | Jubail | 4,000 | 0 | **Not Active (PS #1266)** |
| 1354 | 1420 | Al-Sharq Plastic Tanks Fty. | Dammam | 15,000 | 0 | Not Active |
| 290 | 1420 | Al-Asr Al-Hadeeth Tanks Fty. | Riyadh | 13,000 | 0 | Not Active |
| 620 | 1418 | Al-Hussainy Fty. for Plastic Tanks | Riyadh | 5,000 | 0 | Not Active |
| 1167 | 1418 | Modern Plastic Tanks Factory | Riyadh | 12,500 | 0 | Not Active |
| 376 | 1420 | Ehtiraf Plastic Tanks Fty. | Jeddah | 20,000 | 0 | Not Active |
| **Total** | | | **-** | **155,000** | **52,000** |  |