MEMORANDUM

Date 4-8-1421(31-9-2000) cc M.Dobaib(Summary)

A.Al-Shabaan(Summary)

A. Al-Sharief

From Ali Al-Akel M. Al-Mazroo

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To : Ahmed Al-Mubarak S. Al-Kurnas

TSCD/RESD

Ref : App # 3179 – Saudi Ceramic Company (SIDC), Riyadh.

(Expansion Inv # 173)

**Subject : MARKETING REPORT (Fast Track)**

**SUMMARY AND RECOMMENDATION**

This application is for a new expansion the sanitary ware production facility by adding a new production line to the Saudi Ceramic Company (SCC), which was set up under Inv # 173, 24 years ago, and subsequently expanded.

The sponsor’s existing capacity of sanitary ware is 12,000 and with this expansion, he will doubled his capacity to reach 24,000 tpa of sanitary ware, based on a 3 shift basis. According to the sponsor, the total project cost is estimated at SR 26 million of which 50% is requested as a loan from SIDF. The primary objectives of this proposed expansion can be summarized as following:

|  |  |
| --- | --- |
|  | Substituting the imports of sanitary ware, especially in the low to mid quality segment. |
|  | Adding modern machinery and equipment to increase the production efficiency and production capacity and reducing the production cost. |
|  | Utilizing the long experience of the company in the sanitary ware in both local and export markets as well as increasing the export activities and overall sales volumes. |

The actual historical sales volume and value of sanitary ware sales of SCC during the last three years are as follows:-

**(Ton)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **1997** | | **1998** | | **1999** | |
| **Ton** | **(SR000)** | **Ton** | **(SR000)** | **Ton** | **(SR000)** |
| Local Sales | 9,298 | 67,890 | 9,242 | 63,521 | 10,188 | 67,117 |
| Export Sales | 442 | 2,330 | 767 | 4,166 | 847 | 4,541 |
| Total | 9,740 | 70,220 | 10,009 | 67,687 | 11,035 | 71,658 |
| Change % |  |  | 3% |  | 10% |  |

The sales of SCC increased by (3%) in 1998 and by 10% in 1999. This was as a result of that the SCC decreased its prices slightly to compete with other brands in the market.

With Saudi Development Company (SIDC) Inv # 1401and Arabian Company for Ceramic Industry (Porcelina, non SIDF, they started their commercial production in beginning of this year 2000) being the only producer of ceramic sanitary ware, all competitive products is imported by a large number of importers/retailers.

Eventhough, the difficulties of the economical conditions, the demand of sanitary ware increased by 40% in 1999. Local production of sanitary ware accounts for 32% of total demand, while the remaining 68% is met by imports.

Our projected demand, recommended sales volumes and market share of the proposed product for the coming five years are shown in the following table:-

**(Ton)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Local**  **Demand** | **Local**  **Sales** | **Market Share** | **Export**  **Sales** | **Total Sales**  **(local + export)** |
| **2001** | 39,462 | 12,420 | 31% | 1,080 | 13,500 |
| **2002** | 40,646 | 13,340 | 33% | 1,160 | 14,500 |
| **2003** | 41,865 | 14,260 | 34% | 1,240 | 15,500 |
| **2004** | 43,121 | 15,180 | 35% | 1,320 | 16,500 |
| **2005** | 44,415 | 16,100 | 36% | 1,400 | 17,500 |

The sponsor’s proposed ex-factory selling prices are competitive compared with current local competitor prices.

## ASSESSMENT OF SUCCESS FACTORS

|  |  |
| --- | --- |
| ***Strengths*** | |
|  | The sponsor has a good historical sales record. The SCC’s sales value was SR 71.7 million in 2000 (upto 30th of October). |
|  | Management appears to be professional and competent. The factory is managed by Mr. Sullaaiman Al-Khalifa, who is an experienced and capable person in this business. |
|  | Well established distribution network. SCC has 14 show room covering the major area in the Kingdom. |
|  | Utilizing their good experiences in this sector (about 21 years). |
|  | Good Advertising and promotional campaign. The company pays from SR7-9 million yearly for Advertising and promotional activities. |
|  | Generally the current local market of both ceramic sanitary ware is still dominated by imports with 68% total market in 1999. This will enable SCC to increase its output and substitute imports. |
|  | The expectations that the construction sector in the Kingdom will recover and grow in the near future as result of the recent increase in the oil prices |
|  | SCC has good product range. They have 13 major models of sets in addition to some old models and accessories. |
| ***Weaknesses*** | |
|  | The market is highly competitive. Major competitors with cheap imported brands have strong presence. |
|  | The fluctuation of the prices. |
|  | The company is not export oriented. It exported only 8% of its total sales of ceramic sanitary ware. |
|  | Low entry barriers for a new competitors with continuos modern design. |

# CONCLUSION AND RECOMMENDATION

Given the above marketing considerations, this expansion is supported from a marketing point of view based in our revised sales volumes.

**Ali AL-Akel**

**1.INTRODUCTION**

This application is for a new expansion for the sanitary ware production facility by adding a new production line to the Saudi Ceramic Company (SCC), which was set up under Inv # 173, 24 yeasrs ago, and subsequently expanded several times.

Saudi Ceramic Company is a joint stock company. According to the sponsor’s industrial license # 848/S dated 26/05/1420H, the project is authorized to produce the following:-

|  |  |
| --- | --- |
| Product | **Capacity** |
| Sanitary Wares | 30,000 tpa |
| Ceramic Tiles | 10 million m2 |
| Road sign | 2,600 tpa |
| Glaze For Internal Used | 12,00 tpa |
| Worked Clay | 6,000 tpa |
| Electric Water Heaters | 300,000 units |
| Heating Elements | 1 million units |

The sponsor’s existing capacity of sanitary ware is 12,000 and with this expansion, he will doubled his capacity to reach 24,000 tpa of sanitary ware, based on a 3 shift basis. According to the sponsor, the total project cost is estimated at SR 26 million of which 50% is requested as a loan from SIDF.

###### **2. EXPANSION OBJECTIVES**

The primary objectives of this proposed expansion can be summarized as following:

|  |  |
| --- | --- |
|  | Substituting the imports of sanitary ware, especially in the low to mid quality segment. |
|  | Adding modern machinery and equipment to increase the production efficiency and production capacity and reducing the production cost. |
|  | Utilizing the long experience of the company in the sanitary ware in both local and export markets as well as increasing the export activities and overall sales volumes. |

**3. PRODUCT**

SCC has now 13 popular models of ceramic sets namely Sapphire, Topaz, Flora, Asdaf, Dana, Marmar, Najmah, Rana, Sana, Sawsan, Zeinah, Zohour, Zomorud, and some other single sanitary ware products such as wall hung model (Shafaq), small washbasins, wall mounted washbasins, counter WB's, eastern WC, shelves, accessories and some old models. All these models are available with the basic colours such as white, progamon, agais green, yellow and manhattan grey. However, SCC can produce other colour depend on the customer order. . The white color is the most popular color, representing approximately 80% of their total sales These models are divided in different segment level of quality as shown:-

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Segment** | **Model** | | | **% of Current & Proposed Sales** |
| High | Sapphire | Topaz |  | 1.3% |
| Mid-High | Asdaf | Zomorud |  | 4% |
| Mid | ACC  Al Wadi  Children  Dana | Flora  Jasmin  Marmar  Najma | Shafaq  Shalal  Vanity  Zeinah  Zohour | 35.7% |
| Mid-Low | Arabic  Pedestal | Shelf  Urinal |  | 4% |
| Low | Al Wadi  Hana  Setco  Leena | Lotus  Wafa  Nada  Rana | Sana  Sandy  Sawsan  Warda | 55% |

Each set of ceramic sanitary ware consist of five components:

1. Wash Closet 2. Cistern 3. Bidet 4. Wash Basin 5. Pedestal

6. Other ceramic accessories such asTowel bar, Paper holder, Shelf, Soap holder, ect. SCC provides their customers with some imported accessories with each ceramic set such as flushing system and seat cover.

# 4. MARKET CHARACTERISTICS

1. Low quality sanitary ware coming from India is capturing more share from the medium quality segment. Currently, the low quality segment account for 45% of this market.
2. Most local retailers are complaining about the local producer marketing strategy. They said that the show room salesmen and marketing of Saudi Ceramic for example are trying to convince customers that the brands sold by retailers are second level quality.
3. Many imported sanitary ware are not very expensive in comparison to the local brands. Some Italian and French sanitary ware are less expensive than the local brands.
4. Newer models in the market posses new features such as:-
5. Water saving tanks used for flushing
6. Comfortable seats size and shape
7. Less use of Bidet
8. Stronger and faster suction of water (resembled in the shape of the hole)
9. Quieter flushing sound
10. The accessory is guaranteed for long time, and it comes in newer shapes and models
11. One of the problems that are facing local producers was the problem with the mechanism of the accessory, which causes many customers to choose different brands. The problem is summarized in the defect of the flushing. The problem took long time to be solved.
12. The American Standards designs are in big demand in the local market

**5. SUPPLY**

**5.1. Local Production**

Three licenses have been issued by the Ministry of Industry to produce sanitry ware products. However, currently only three local producers are in operation, the subject project Saudi Ceramic Company SIDF Inv.# 173, Saudi Development Company (SIDC) Inv # 1401 and Arabian Company for Ceramic Industry (Porcelina) (non SIDF). The Porcelina factory started its commercial production in beginning of this year 2000. It is very small factory, which targeting low segment market. We have sent a fax to Porcelina and contacted them to provide us with information about their capacity, sales, prices and their manufactured models, but unfortunately they were not cooperative. However, we got the below information about Porcelina from the market survey and from Saudi Ceramic Co. The following table shows the industrial licenses for sanitary ware items in the Kingdom:-

*(Ton)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Company | Location | Lic # | Licensed Capacity | Installed Capacity | Status |
| Saudi Ceramic Company | Riyadh | 454 | 30,000 | 12,000\* | Inv #173 |
| SIDC | Yanbu | 517 | 7,500 | 6,767 | Inv #1401 |
| Danah Sanitary Articles | Medainah | 428 | 4,500 | - | Not active |
| Arabian Company for Ceramic Industry (Porcelina) | Riyadh | 1394 | 5,000 | 1,500 | Active (non SIDF) |
| Total |  |  | 47,000 | 20,267 |  |

\* Current installed capacity, but after the subject expansion the installed capacity will reach 24,000 ton per year.

The following table shows the actual sale of the three sanitary ware local producers for both local and export sales during the past three years:

*(Ton)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Company | Location | 1997 | | | 1998 | | | 1999 | | | 2000\* | | |
| Local | Export | Total | Local | Export | Total | Local | Export | Total | Local | Export | Total |
| SCC | Riyadh | 9,298 | 442 | 9,740 | 9,242 | 767 | 10,009 | 10,188 | 847 | 11,035 | 5,486 | 450 | 5,936 |
| SIDC | Yanbu | - | - | - | 480 | 54 | 534\*\* | 1,569 | 529 | 2,098 | 688 | 194 | 882 |
| ACCI | Riyadh | - | - | - | - | - | - | - | - | - | 120 | - | - |
| Total |  | 9,298 | 442 | 9,740 | 9,722 | 821 | 10,543 | 11,757 | 1,376 | 13,133 | 6,294 | 644 | 6,818 |

\* These sales are only for the first half of year 2000.

5.2. Imports

The imports of sanitary ware are about 68% of total market demand. They are imported by more than 50 importers (distributors) to the Saudi market. They are divided into three main segments in terms of quality:

|  |  |
| --- | --- |
|  | High quality products are imported from USA, France, U.K., Italy, and Spain. |
|  | Medium quality products are imported from Italy, Greece, UAE and Egypt. |
|  | Low quality products are imported from India, Pakistan, Lebanon and Others. |

The following table shows the importer's sales of sanitary ware for 1997-1999:-

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Volume (Ton) | Change % | Value (SR 000) | Change% |
| 1997 | 18,466 | - | 108,586 | - |
| 1998 | 17,317 | -6% | 100,044 | -7% |
| 1999 | 25,440 | 47% | 112,461 | 12% |

From the tables above, in 1998, the imports declined from 1997 by around 6% and 7% in volume and value respectively. According to the market, the decline was more than this percentage. It is estimated at 20-25%. This was due to that most of traders had huge stocks of products from years ago and then sold them at less than the cost price. In 1999 the imports increased by 47% as a result of the increase demand on the cheaper imported brands especially from India and Lebanon.

**6. DEMAND**

Based on the recent market report (App # 3170, dated on 4-9-2000), the historical demand was presented as follows ( updated slightly with SCC actual sales in 1999):

|  |  |  |
| --- | --- | --- |
|  | Sanitary Ware (Ton) | |
| 1998 | 1999 |
| Local production | 10,543 | 13,133 |
| Importers sales | 17,317 | 25,440 |
| Less Export Sales) | 821 | 1,376 |
| Total local market demand | 27,039 | 37,197 |
| Change % | - | 38% |

Eventhough, the difficulties of the economical conditions, the demand of sanitary ware increased by 38% in 1999.

The future market demand is expected to grow for the next coming years, especially after the oil prices are going up. This will improve the construction sector as well as bringing more government projects in addition to the new investment laws and allowing of tourism. Based on the above factors, we would assume 3% annual growth rate for the sanitary ware.

|  |  |
| --- | --- |
| Year | Future Demand of Sanitary Ware  (Ton) |
| 2000 | 38,313 |
| 2001 | 39,462 |
| 2002 | 40,646 |
| 2003 | 41,865 |
| 2004 | 43,121 |
| 2005 | 44,415 |

**7. SALES VOLUMES AND MARKET SHARES**

**7.1. Sponsor’s Historical Sales Performance**

The actual historical sales volume and value of sanitary ware sales of SCC during the last three years are as follows:-

**(Ton)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **1997** | | **1998** | | **1999** | |
| **Ton** | **(SR000)** | **Ton** | **(SR000)** | **Ton** | **(SR000)** |
| Local Sales | 9,298 | 67,890 | 9,242 | 63,521 | 10,188 | 67,117 |
| Export Sales | 442 | 2,330 | 767 | 4,166 | 847 | 4,541 |
| Total | 9,740 | 70,220 | 10,009 | 67,687 | 11,035 | 71,658 |
| Change % |  |  | 3% |  | 10% |  |

The sales of SCC increased by (3%) in 1998 and by 10% in 1999. This was as a result of that the SCC decreased its prices slightly to compete with other brands in the market.

SCC's historical sales volume of sanitary ware during the last two years broken by the segment level of quality are as follow:-

**(Ton)**

|  |  |  |
| --- | --- | --- |
| **Segment** | **1999** | **2000\*** |
| High | 71 | 158 |
| Mid-High | 481 | 480 |
| Mid | 4,394 | 4,339 |
| Mid-Low | 315 | 499 |
| Low | 5,646 | 6,760 |
| Other\*\* | 128 | 81 |
| Total | 11,035 | 12,317 |
| Change % | - | 11% |

*\*This sales are upto 30-10-2000.*

*\*\*Other includes some old models, which will be discontinued and cancelled in year 2001.*

**7.2. Projected Sales and Market Share**

The sponsor provides us his proposed sales plan of ceramic sanitary ware for the coming five years as follows:-

**(Ton)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Segment** | **2001** | **2002** | **2003** | **2004** | **2005** |
| High | 190 | 218 | 240 | 264 | 274 |
| Mid-High | 576 | 663 | 729 | 802 | 834 |
| Mid | 5,207 | 5,987 | 6,586 | 7,245 | 7,535 |
| Mid-Low | 599 | 689 | 757 | 833 | 866 |
| Low | 8,078 | 9,289 | 10,218 | 11,240 | 11,690 |
| Total | 14,650 | 16,846 | 18,530 | 20,384 | 21,199 |

MSCD view is that the sponsor sales forecast seems to be optimistic and we believe the sponsor will not be able to achieve this shares in highly competitive market and considering the sponsor’s historical sales performance. Thus, we believe the sponsor’s sales forecast needs a revision downward to be more reasonable and more achievable as follows:-

**(Ton)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Segment** | **2001** | **2002** | **2003** | **2004** | **2005** |
| High | 176 | 189 | 202 | 215 | 228 |
| Mid-High | 540 | 580 | 620 | 660 | 700 |
| Mid | 4,819 | 5,176 | 5,533 | 5,890 | 6,247 |
| Mid-Low | 540 | 580 | 620 | 660 | 700 |
| Low | 7,425 | 7,975 | 8,525 | 9,075 | 9,625 |
| Total | 13,500 | 14,500 | 15,500 | 16,500 | 17,500 |

The sponsor’s projected sales of sanitary ware is broken down by local sales and export sales at 92% and 8% respectively as follows:-

**(Ton)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2001 | 2002 | 2003 | 2004 | 2005 |
| Local Sales | 12,420 | 13,340 | 14,260 | 15,180 | 16,100 |
| Total Demand | 39,462 | 40,646 | 41,865 | 43,121 | 44,415 |
| Market Share % | 31% | 33% | 34% | 35% | 36% |
| Export Sales | 1,080 | 1,160 | 1,240 | 1,320 | 1,400 |
| Total Sales(local + export) | 13,500 | 14,500 | 15,500 | 16,500 | 17,500 |

# 8. PRICES

There is a wide range of variation in prices of ceramic sanitary ware, the main factors which determine the prices are the following:-

1. The quality of the material and the grade. First grades are more expensive than second and third grades.
2. The model; new models are usually sold at higher prices.
3. The type of the non-ceramic components i.e. tubs and accessories.
4. Colour, light coloured sets are more expensive than white ones. Also dark deep colours are more expensive than light colours.

Currently, the prices of sanitary ware decreased last year by 10%-15%. This decrease was in low and medium quality segments only. The decrease was because of the following main reasons:

1. Some traders sold old stocks which they imported huge volumes of sets at low prices (even under the cost) because they need cash.
2. Many of low quality products mainly from India and Lebanon with very low prices.
3. The importers of high quality products provided new products with cheap prices and low quality than their normal imports to get more share in the market.

According to the current market prices, the following table shows the retail prices of imported and locally made products in order to compare with sponsor proposed selling prices:-

Sanitary ware (price SR/per set/kg).

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Glass (Type) | Imported  Product  (Retail Price) | Local  Production  (Porcelina) R.P. | Local  Production  (SIDC) E.P. | | Sponsor’s Current Average Selling Price | | **Sponsor’s new Proposed Average Selling Price Per kg** | **% of Proposed Sales** |
|  | Per Set | Per Set | Per Set | Per kg  (ex-factory | Per Set  (R.P) | Per kg  (ex-factory) | **Per kg** |  |
| Top high | 9000-40000 | - |  | - | - | - | **-** | - |
| High | 3,500-9,000 | - | 1,025 | 15 | 2,000 | 23.41 | **16.97** | **1.3%** |
| Med.High | 2,050-3,500 | - | 623 | 8 | 810-870 | 10.52 | **7.36** | **4%** |
| Medium | 950-2,050 | 850 | 476 | 6.5 | 615-640 | 9.81 | **6.87** | **35.7%** |
| Med.Low | 400-950 | 600 | 504 | 5.5 | 530 | 6.10 | **4.27** | **4%** |
| Low | 200-400 | 500 | 405 | 4.5 | 413 | 5.00 | **3.43** | **55%** |
| Very.Low | 150-200 | - |  | - | - | - | **-** | - |

The sponsor’s proposed selling prices are competitive with the other local producers and the and the sponsor export prices was estimated to be sold at about 25% to 30% lower than local market prices in order to be competitive with other exporting countries.

The project officer can use the average weighted price, which is **SR 5020 per ton** for the financial calculation.

# 9. COMPETITION

With Saudi Industrial Development Company (SIDC) being the only producer of sanitary ware, all competitive material is imported by a large number of importers/retailers. According to our market survey, there are about over 50 importing agents in the Kingdom, all of whom import from various countries. Those importers place more emphasis on price and design, rather than quality, as this factor is mostly only of key importance to project customers rather than private buyers.

The market sanitary ware consists of three segments in terms of quality as in the following table:-

|  |  |  |
| --- | --- | --- |
| Segments | Share (%) | Source |
| High quality | 20% | USA, France, U.K., Italy, Germany |
| Medium quality | 35% | KSA, Italy, UAE |
| Low quality | 45% | Lebanon, India, Egypt, China and Others |

The competition is very strong in the market for the three segments. Each segment has its market and its competition elements as follows:

a. High quality segments:

This segment is about 20% of total market. The main factors of the competition are luxury and famous brand name. The price is not so important in this segment. This segment is dominated by popular imported brands, while the local producers will not reach this segment at least in the near future. **It is difficult for the local producers penetrate this segment, because it is dominated by well-known international brands such as Rona, American Standard and Toto.**

b. Medium Quality:

This segment represents about 35% of total market. It is mainly imports and some of local production. The competition in this segment is divided into four factors:

1. Quality (40%)

2. Prices (30%)

3. Source (20%)

4. Brand Name (10%)

Local producers including SCC are targeting this segment in addition to the low segment. According to our survey, **this segment was about 60%-70% of the total market three years ago**. However, with economic situation and the existence of very imported cheap products in the market, the customers shift their demand in favor of the low quality segment.

c. Low Quality:

It is the large segment in the market it is about 45% of market. The main factor of this segment is the prices. it is dominated by Indian products, which have very low prices (400 SR for set).

**10. DISTRIBUTION/ADVERTISING**

The company has well existing distribution channels Kingdom wide (the company own outlets and agents). The company divides their sales through three distribution channels namely, show room sales, project sales and whole sales (distributors). The company has 14 show room covering all over the Kingdom. These show room provides the customers technical; support as well as after sales services. Also, the company has tens of distributors and hundreds of retailers throughout the Kingdom. SCC gives their distributors special discount in order to not compete with their show room. SCC carries out its export sales through agents. SCC has agents in GCC country, Lebanon, Gordon, Yemen and Sudan, and they are planning to inter some European, African and Asian markets.

As regard advertising and promotion, SCC will carry out different type of promotional and advertising tools to support their image in market. SCC’s yearly advertising and promotion budget is about SR7-9 million

###### **11. MANAGMENT**

The company is managed by experienced and qualified management group. They have good experience in the sanitary ware industry. Mr. Sullaaiman Al-Khalifa, General Manager is a professional person who contributed to SCC success and reorganizing the company.

The marketing is managerd by Mr. Hamed Al-Sheik, who worked with SCC for more than 6 years. Mr. Al-Sheik has a good experience in the sanitary ware business.

The company adopt a new management structure for sales and marketing (see appendix –1-) that provides a good coordination, good communication and good competent.