

# Entrepreneurial Market Entry: A Franchising Perspective in Saudi Arabia

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## Principal Topic

As franchise systems mature in their domestic markets, franchisors wishing to expand their operations need to look to international markets. Amos (2001) believes franchisors must have a strategic plan that incorporates international opportunities as we move closer to a global marketplace and global economy. Despite government bodies in countries such as Malaysia and Singapore opening doors to franchising, a country's regulatory framework as well as the government's actions or inactions can foster or hinder franchise development in any nation.

The aim of this study is to evaluate the numerous barriers to the internationalization of franchising, and qualify this in the context of franchising in the Kingdom of Saudi Arabia. The purpose is to explore possible entrepreneurial modes of entry for Australasian franchise systems into Saudi Arabia. After joining the World Trade Organization, Saudi Arabia has been identified as lucrative compared to other markets in the Middle East region. We specifically concentrate on the fast-food industry, as the business sectors experiencing the most franchise growth internationally are retail and restaurants (Hoffman & Preble, 2004).

## Methodology/Key Propositions

We lend on the key operational issues for franchisors doing business in different world regions (Hoffman & Preble, 2004). The operational factors examined include legal, socio-cultural, and ethical that Larson (2002) notes as being especially important for companies expanding internationally. Legal issues revolve around franchise regulations and intellectual property protection; socio-cultural factors include the tastes, habits and price sensitivity of the local population; and ethical considerations include the existence of codes of ethics and the need to conduct a business with honesty and trust.

This study is fundamentally interpretive in nature, taking a qualitative approach. The focus of the research is the fast-food franchise industry in Saudi Arabia, aimed at franchisors who are currently involved in the field of fast food entrepreneurial market entry. The sample consisted of leading consumer foodservice brands in Saudi Arabia, as identified by Euromonitor (2006). Our sample consisted of 5 firms, and included local established franchisors, local entrepreneurs considering franchising, and international franchise consultants. A questionnaire with open ended questions was designed, with agreed 20-40 minute interview slots. Variables included prospects, barriers to expansion, mode of entry and recommended entry strategies. The study was proposition lead, with each proposition relating to each of the variables. We linked the propositions to the international barriers as identified by Larson (2002).

## Results and Implications

All participants agreed that the fast-food Saudi market is very lucrative, and is expected to sustain this position for the next few years. Quality barriers in market entry included enforced Saudization, specialist local know-how, reliability of local supplies, quality control and lack of service quality standards inherent in the local workforce. Limitations of local regulation in the form of intellectual property protection and franchise regulation were highlighted, despite positive advancements in this arena. Preferred modes of entry disclosed a new trend in entering the Saudi market, being new alliances that are being formed between major

franchisors and investment companies that take control of the franchise system operations in the kingdom, taking the form of a joint venture. These alliances are believed to enhance the position of the operating franchise systems to meet the fierce competition in the Kingdom.

The research has provided some valuable insights by fast-food executive practitioners on the Saudi market. It was unanimously agreed that the Saudi market is definitely lucrative, and that the barriers are not insurmountable to entrepreneurial fast-food expansion. It is recommended that Australasian franchise systems wishing to expand internationally consider Saudi Arabia as a distribution region.

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