LANSDOWNE
CONSULTING
London · Los Angeles · Madrid · Munich · Tokyo · Istanbul · Dubai

Lansdowne Consulting Bulletin

October 2012

Industrial Development and Job Creation in the Middle East

This bulletin is designed to provide our business partners and friends with valuable market and business insights.

The current edition of our bulletin contains three articles:

1) **Socioeconomic Impact of New Business Development in the Kingdom of Saudi Arabia**
2) **Development of an Industry Cluster Utilising Lansdowne's Six-Step Methodology**
3) **Insights Into the Automotive Market in Middle East and North Africa (MENA)**

In addition we provide you with selected news and highlights from our Lansdowne network.

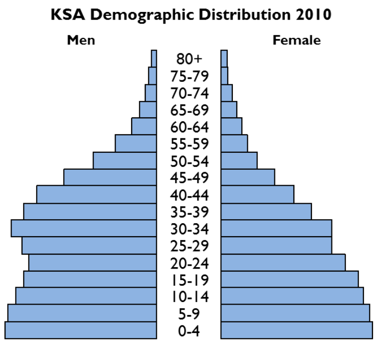
1) Socioeconomic Impact of New Business Development in the Kingdom of Saudi Arabia

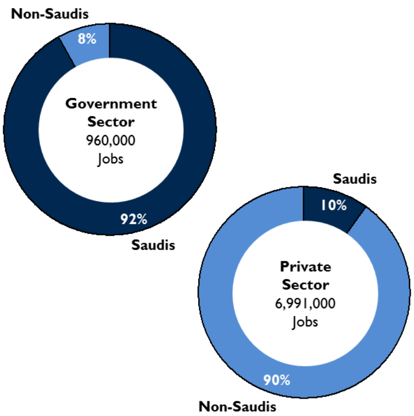
For investors the Kingdom of Saudi Arabia offers outstanding assets. The country provides the lowest electricity and energy costs in the world as well as high quality base materials, such as plastics and metals, and low cost expatriate labour. Depending on the socioeconomic impact an investor's business may have for the Kingdom, the government could offer critical support.

One of the greatest challenges for the countries in the GCC is to create sufficient new jobs for their growing youth population. For instance, whereas Dubai is investing in the financial sector and tourism industry, the Kingdom of Saudi Arabia (KSA) is more focused on heavy industry and knowledge-based industries.

KSA is accelerating its efforts to create jobs for the growing number of young Saudis entering the job market in the near future. Despite the remarkable improvement in income and living standards within the Kingdom over the past 40 years, mostly driven by the oil and petrochemical sectors, additional actions will be necessary to maintain and improve these levels in the future.

The creation of jobs for male and female Saudis is a key focus area of the Kingdom in order to reduce its unemployment rate which currently stands at 10.5%. A particular area of focus is to support the population aged between 20 and 29 years, where over 4m Saudis will be entering the job market in the next 10 years. The demographic growth will push the development of new industries beyond the oil and gas industry. Although this sector has brought significant wealth to KSA, it creates relatively few jobs with less than 3% of the total Saudi work-force employed within KSA's oil and gas industry.





The government has traditionally been the largest and most attractive employer for Saudis. In 2012 alone roughly 300,000 new civil service jobs will be added. The civil service is attractive mainly due to relatively high salary levels and benefits, job security and a lack of competitive alternatives in the private sector. However, the government's drive to develop "dynamic & knowledge based" industries in the private sector, such as the telecommunication industry, has created attractive new targets for Saudi job seekers. In order to provide the required resources to support these new industries, the country has been making significant investments in its universities and R&D capabilities. Furthermore, the government has created numerous initiatives to support the development of a knowledge based economy, such as:

- The National Industry Clusters Programme is working to develop new private sector industries, such as automotive, plastics and metal processing, to diversify the economy and create Saudi jobs
- The Technical & Vocational Training Corporation is ramping up technical training to support the needs of the emerging private sector
- The Human Resource Development Fund is funding efforts to train a Saudi work force for private sector employment

Investors aiming to attract government support for their investments in the Kingdom of Saudi Arabia should understand that one of the country's key priorities is the creation of Saudi jobs. Therefore, an investor's business plans and communication strategy to the government should not only demonstrate the financial viability of their investment, but also reflect the initiative's socioeconomic impact for the Kingdom, including job creation for Saudi nationals, training & skills acquisition and local industry development.

Tobias Hofmann
Managing Partner - Lansdowne Consulting GmbH
tobias.hofmann@lansdowneconsulting.com

Jeff Fenyo
Partner - Lansdowne Consulting GmbH
jeff.fenyo@lansdowneconsulting.com

2) Development of an Industry Cluster Utilising Lansdowne's Six-Step Methodology

Ongoing industrialization and globalization in today's progressively open economies present most countries and regions with a challenge to increase, or at least maintain, their welfare standards. The result of these pressures is potential social imbalance and possible internal conflict. Therefore, the creation of jobs has become a critical task for governments to allocate wealth and thereby sustain social stability. However, today, both traditional and emerging economies are facing similar levels of pressure and there is an increasing rivalry for the creation of jobs on a global basis.

In terms of strategies to address this issue, emerging market economies seek to develop national industries and services, often driven by foreign direct investment from traditional economies. Key assets that typically drive successful national industrial development include inexpensive labor, extensive natural resources and large domestic market potential. On the other side, traditional economies are driven by the development of new technologies and expansion of existing know-how and infrastructure to maintain their wealth standards. In either case, governments strive to develop the most attractive industries or business service areas that will deliver the highest numbers of job and overall wealth creation.

Typical government job creation measures, such as increasing the civil service or national infrastructure projects, help countries to reduce unemployment rates and increase social well-being temporarily, but do not create a sustainable socioeconomic impact. In order to generate sustainable welfare improvements, it is necessary to generate value-adding jobs in private industry that will reduce unemployment rates and offer career opportunities to the country's workforce.

One of the key factors for developing successful and sustainable new industries is the development of local industrial clusters that will attract and support foreign direct investment. However, the process of developing local industrial clusters can be very costly and failures can be momentous for the country or region. In order to manage this risk, Lansdowne Consulting has developed a proven six-step methodology to

Lansdowne's Industry Clustering Six-Step Methodology

	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
Inputs	Analysis & Stakeholder Interviews	Asset Assessment	Concept & Supplier Benchmarks	International Benchmarks (top-down)	Indicators & Concept	Lansdowne Methodology
Approach	**Key Socioeconomic Issues**	**Support Asset Advantages**	**Bottom-up Industry Ramp-up Model**	**Top-down Socio-economic Model**	**Socio-economic Impact**	**Implemen-tation Approach**
Outputs	• Assessment of the unemployment situation, key challenges and government measures	• Rapid assessment of available assets to support the industry	• Calculation of direct employment potential in the supply chain	• Calculation of total direct, indirect and induced employment potential	• Assessment of total socio-economic impact in terms of job creation, GDP growth and welfare savings	• High level implementation approach to establish local supply base
Key Questions to Address	• *What are the issues driving the need for industrial development?*	• *What supporting assets are available to support an industry ramp-up?*	• *How would suppliers localise and what would be the impact on local job creation?*	• *What would be the impact of the wider value chain in terms of local job creation?*	• *What would be the overall socioeconomic benefits?*	• *How can a local supply base and trained workforce be established?*

identify and model the socioeconomic impact and related costs of developing local industrial clusters. The aim of this methodology is to demonstrate the impact of a viable industrial development on job and wealth creation and highlight the development costs, processes and regulations required to make it happen.

Based on socioeconomic analyses as well as stakeholder and expert interviews, Lansdowne conducts an assessment of the current unemployment situation, key socioeconomic challenges and government measures. The output forms the base case for the design of the local industrial cluster and ensures that all assumptions are well grounded in reality. This phase also defines the key issues that are driving the need for industrial development

As the second step, Lansdowne analyses local resources such as know-how, raw materials, suppliers, technologies and other input factors to identify existing assets that would support a local industrial cluster. Identifying all local and regional assets is especially important if there are options to develop synergistic industries, such as the white goods and automotive industries.

Global supplier benchmarks support the development of a bottom-up model to calculate direct employment potential along the entire value chain during the ramp-up period (i.e. from initial cluster set-up to mature phase). In addition, the 'ramp-up model' includes a number of input variables, such as export potential and synergy multipliers, to provide further refinement of the employment impact numbers.

The forth step is to develop a top-down model based on international benchmarks of comparable industries to calculate the total direct, indirect and induced employment that would be created by the value chain. The result is a rigorous socio-economic model that captures total employment creation and includes sensitivity analysis for risk assessment purposes, such as minimum and maximum job creation scenarios.

The next step is to calculate the total socioeconomic impact for the country in terms of total job creation, GDP impact (i.e. net import reduction and export gains), social welfare savings, R&D development, etc.

The final task is to develop a practical and viable roadmap to realize the implementation of the local industrial cluster. Activities include the development of programmes to attract foreign direct investment, local employee training and certification and regulatory measures to support the nascent industry.

Through Lansdowne's six-step approach, investors are able to give national governments full confidence that local industrial cluster developments will generate the expected socioeconomic impact, especially in terms of job creation. This confidence will facilitate the crucial government support and investment required to bring these critical initiatives to life.

Tobias Hofmann

Managing Partner - Lansdowne Consulting GmbH
tobias.hofmann@lansdowneconsulting.com

Sebastian Haaf

Consultant - Lansdowne Consulting GmbH
sebastian.haaf@lansdowneconsulting.com

3) Insights Into the Automotive Market in Middle East and North Africa (MENA)

Lansdowne recently assessed the Middle East and North African (MENA) car market for a leading regional industrial group and it provides an interesting case study to highlight the differences with the European and American markets.

The MENA market is characterized by special consumer needs and unique cultural aspects. From an economic perspective, it provides OEMs, suppliers and distributors with promising growth opportunities over the next 20 years. The competitive landscape of the MENA car market is currently dominated by Asian brands (e.g. Toyota and Hyundai) while North American brands are strong in certain segments, such as GM's SUVs. European car manufacturers are weakest in the region and achieved comparatively insignificant volumes in 2011. The reasons for the Asian brand dominance include renowned quality and reliability, ruggedness (SUVs), brand reputation and the excellent price-value ratio of leading Japanese manufactures and upcoming Korean player Hyundai. Hyundai in particular is experiencing spectacular market share growth and is putting its competitors under significant pressure. The main drivers for its growth are excellent product design, low spare part prices and a significantly improved perception of quality while offering an attractive price value relation.

In terms of volume the total MENA market amounted to 1.4m units in 2011, of which Saudi Arabia is the leading market with a 42% share followed by UAE (19%). The dominant car segment in the MENA market is the C car (22%) followed by the CD car (14%). The B car segment as well as Medium and Large SUVs together account for 20%. It is notable that Saudi Arabia and UAE have similar segment shares with Medium and Large SUVs representing more than 15% of sales. On the other hand, markets with lower income levels, such as Egypt, are dominated by the C car segment with a 75% share.

According to Lansdowne's research, the growth outlook is promising for this region with an estimated car parc of 3.5m units by 2030, of which passenger cars will represent more than 80%. This creates attractive opportunities for existing and new market players. In terms of segment volume, the C car is projected to remain the largest segment in MENA with continued growth until 2021 when it will reach 40% market share.

In terms of value, the most attractive segments in MENA are the C car, large SUV, CD car and Medium SUV, which together are forecast to represent ca. $30bn by 2018. It should be noted that large SUVs, although small in volume, are a highly attractive segment in terms of value. On the other hand, the B car segment, although rapidly growing and significant in volume terms, is less attractive due to lower price points.

As for body style sales, MENA is primarily a sedan market with this body style being more than twice as popular as the second most prevalent body style (SUV). Therefore it is forecast that Sedan and Hatch will continue to dominate the region, but that SUV will also experience significant growth.

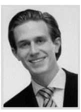
B Car	C Car	CD Car	D/E Car	MPV	Medium SUV	Large SUV
Size 3.9-4.4m	Size 4.35-4.6m	Size 4.6-4.9m	Size 4.85-5.0m	Size 4.7-4.8m	Size 4.7-5.1m	Size 5.13-5.65m
• Chevrolet Aveo • Toyota Yaris • Hyundai Verna	• Hyundai Avante • Toyota Corolla • Nissan Sunny	• Toyota Camry • Samsung SM3 • Toyota Aurion	• Chevrolet Caprice • Hyundai Grandeur • Ford Crown Victoria	• Hyundai Starex • Kia Carnival • Honda Odyssey	• Toyota Land Cruiser 90 • Toyota Fortuner • Nissan Pathfinder	• Nissan Patrol • Toyota Land Cruiser 100 • GMC Yukon

The car distribution structure in MENA is strongly influenced and defined by powerful local distributors who have invested significant resources to control their local markets. Regional OEM offices and independent dealers are collaborating to exploit the market potential from a number of opportunities. For example, one area of opportunity is the improvement of the automotive after sales and service sector. In MENA, maintenance and repair is a key element of cost of ownership due to short maintenance cycles, high average mileage per annum and the comparatively low cost of fuel. However, the service experience in MENA generally does not meet the OEMs' high global standards in terms of quality, responsiveness, efficiency and skills. Recruiting skilled labor and developing skills (service and technical) in MENA is a key requirement and challenge for distributors/dealers. This situation is particularly a handicap for European car makers who struggle to recruit and retain skilled technical staff capable of managing the sophisticated technology used in their cars. In response to this challenge, the Japanese car brands and their dealers in Saudi Arabia launched a successful automotive technician training program in Jeddah to develop the required skills for their dealership technical staff. Not to be left behind, Hyundai dealers have recently signed an agreement with the Saudi Technical and Vocational Training Corporation to develop and manage a two year training program for their technicians

The MENA market offers promising growth rates for the car industry. However, a successful exploitation of the market's potential requires a clear understanding of the regional and cultural differences, unmet consumer needs and technical specifications required country by country. Building a strong and powerful distribution collaboration that excels in sales, after sales and communication is a key challenge in MENA – however, those players capable of achieving it will benefit from strong differentiation from their competitors.

Markus Fränkel

Partner - Lansdowne Consulting GmbH
markus.fraenkel@lansdowneconsulting.com



Christian Altwein

Senior Consultant - Lansdowne Consulting GmbH
christian.altwein@lansdowneconsulting.com

Selected news from the Lansdowne Consulting network

5th Year Anniversary of Lansdowne Consulting Munich

We are happy to announce that Lansdowne Consulting's Munich office is celebrating its 5th year anniversary this year. We look forward to continue providing our clients with tailored teams from our global network consisting of highly experienced consultants and industry executives.

Robert Oostendorp

Lansdowne Consulting Munich welcomes Robert Oostendorp as a new Associate Principal and expert for the automotive industry and BRIC markets. Mr. Oostendorp previously worked for BMW and has over 15 years of professional experience.

New Lansdowne Office in Dubai

Lansdowne will soon open its new office in Dubai, complementing our MENA presence with our recently opened office in Istanbul. This new location will support our increasing activities in the MENA region and will bring us closer to our clients in the area.

Lansdowne is a leading international strategy consulting boutique. We provide our clients with tailored teams from our global network consisting of highly experienced consultants and industry executives. We focus on delivering measurable results and implementing sustainable solutions for complex business challenges.

Lansdowne Consulting GmbH
St.-Anna-Platz 2
80538 Munich
Germany

Contact: Sebastian Haaf
Tel: +49 (0) 89 - 37 41 64 72
Fax: +49 (0) 89 - 37 41 64 74
E-Mail: sebastian.haaf@lansdowneconsulting.com