



## Is the Business in Saudi Market Sustainable? Case Study of Almarai

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**Abstract:** *Almarai is an international business originating from Saudi Arabia. The company has a reputable position in the MENA region. For many decades especially inside KSA (Kingdom of Saudi Arabia) in GCC including other Gulf countries and North Africa, Almarai enjoys brand leadership. The company ownership is diversified that consists of reputable owners including from the royal family, who concern tremendously to upgrade the economy of the Kingdom and raise social welfare as well. Guided by the kingdom's vision-2030 there are stable companies including Almarai that have a continuous growth potentials as evident from its annual financial statements until a turning point, where profitability ratio has dipped and sustainability of its business is a question mark due to the Covid-19. The company has operated in range of business segments such as dairy, juices, cheese and agribusiness and its brand are known in supermarket shelves. Workers of the organization have diversity of nationalities and religions; Almarai requires a professional dealing with employees regarding the Islamic and fair business concepts which distributes the responsibilities and duties fairly without any kind of discrimination. The challenges ahead of the company are dual viz. to maintain reasonable return on investment for shareholders and employees retention in midst of devastating effect of post Covid-19 crisis and forthcoming economic downturn due to the unexpected pandemic for the year 2020 in short term and its' pursuit of national agenda of achieving the kingdom vision 2030 in the long term.*

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### **PREAMBLE**

Muslims' population exists across central Asia, Asia-Pacific and North African regions and they are part of OIC in general. The Pew Report reveals that there are approximately 1.57 billion Muslims out of approximately 6.8 billion worldwide populations of all ages in more than 200 countries. The Muslim consumers' presence is in all five continents but some of them reside in Muslim majority countries while others are Muslims as minorities. The Muslims in OIC Countries: Asia-Pacific 972 million, the Muslims in Indonesia alone as a single largest nation are about 13 % (more than 203

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millions). The Muslims in Middle East-20 % and SAARC countries such as Pakistan, Bangladesh and Maldives including India are 31%. However sizeable minority Muslims live in European, American and other Non-Muslim Countries out of which China alone is a host of 22 million. It is well known that Saudi Arabia is one of the known Muslim nations and enjoys one of the best economies in the Middle-East and Gulf region due to its powerful markets and high competitive industries. Holding a leadership in any industry in Saudi Arabia is very complicated process that needs spending much of effort to reach this remarkable position, but what is harder is to sustain this position. Food industry is one of the profitable industries in Saudi Arabia and Almarai has a reputable position in MENA (Middle East and North Africa) region for many decades especially inside the Kingdom, Gulf nations and other North African countries.

**BACKGROUND**

Almarai is one the most successful dairy companies in the field of dairy manufacturing and that can be easily recognized from its high growth rate and increasing market share inside or outside Saudi Arabia. Almarai has been established in 1977 and took nearly 15 years to upgrade its sales, and boost itself among sharp competitors. Nowadays, Almarai has annual sales exceeds 50 billion SAR and it has a global record to be ranked at the top of world’s largest integrated dairy company by more than 35,000 employees. Ownership of Almarai consists of reputable owners that range from common man to the royal family, who concern tremendously to upgrade the economy of the Kingdom and raise social welfare as well. At the beginning of 2007, Almarai signed a memorandum of understanding with the authorized partners in Western Bakeries Company Limited, to acquire up to 100% ownership of these companies (Singh, 2016).As of 31<sup>st</sup> December 2018 Almarai had 49,076 shareholdings by a diversified ownership structure. Corporate investors represent 65.8% of the total share ownership, while individual investors represent 34.2%. There are 37 majority shareholders owning one million or more shares in Almarai, representing 90.3% of the issued shares. Among them 49,384 investors are Saudi whereas 342 investors are belonging to other nationalities. Hence Almarai is an international entity and allows the international citizens’ equity. The following tables provide an overview of Almarai’s investors.

Table 1. Almarai investors according to nature of investment

Investor type	Number investors	Number of shares	Percentage of ownership
Corporate	254	509,957,679	63.7
Individual	49,472	290,042,321	36.3
<b>Total</b>	<b>49,726</b>	<b>800,000,000</b>	<b>100</b>

Source: Almarai annual reports

Table 2. Almarai investors according to nationalities

Investor type	Number investors	Number of shares	Percentage of ownership
Saudi nationals	49,384	780,032,246	75.0 %
Other nationalities	342	19,967,754	25.0 %
<b>Total</b>	<b>49,726</b>	<b>800,000,000</b>	<b>100</b>

Source: Almarai annual reports

Table 3. Almarai investors according to investor type

Investors	Percentage of ownership	Number of investors
SAVOLA Group Company	36.5 %	1
HH Prince Sultan bin Mohammed bin Saud AlKabeer	23.7 %	1
Private funds	16.5 %	5
Government and quasi-government institutions	40 %	9
Mutual funds	24 %	88
Swap agreements	14 %	37

Source: Almarai annual reports

Table 4. Almarai investors according to size of ownership

Number of shares	Number of investors	Percentage of ownership
One million shares and more	39	13 %
From 500 thousand to less than a million	17	15 %
From 100 thousand to less than 500 thousand	100	30 %
From 50 thousand to less than 100 thousand	102	09 %
From 10 thousand to less than 50 thousand	619	16 %
From 5 thousand to less than 10 thousand	562	05 %
From 1 thousand to less than 5 thousand	5461	12 %

Source: Almarai annual reports

The business world is very sensitive to the surrounding environment as it deals with customers' preferences, which are created up to clear standards of culture, customs, and traditions and definitely the religious standards are commonly shared among constituents' beliefs of the community, and orientation of the employees; therefore, Almarai spends much of effort, time, and money to keep up with Islamic standards and commit by *Shar'iah* laws (Abbasi, Rehman, Bibi, 2010).

This case study aims to explore the successful management of Almarai and how it commits by Islamic concepts and integrate it with its remarkable financial position, in addition to reviewing its structure in Islamic economies under CSR vision, especially when there are many changes occur in public tastes regarding to the vision of 2030.

#### **ALMARAI HOLDS REMARKABLE MARKET POSITION**

Almarai is one of the stable companies that have a continuous growing and that can be easily recognized from its annual financial statements and that has been occurred due to turning point, when the company has been converted from limited liability into joint-stock company in 2005 and extended its functions in several segments such as dairy, juices and cheese product categories. Under the vision of 2030, the Saudi government looks for developing its different facilities and expands its economic sources and the agricultural and food industries have a corner stone and remarkable role in keeping the miscellaneous of socio-economic development of the kingdom. Almarai plays essential role in this general development process; especially it has wide operations in neighbor countries such as Sudan and Egypt so it holds a significant responsibility to participate

in the development process of the Kingdom through diversification of its products on wider range (Singh, 2016).

The growth rate of Almarai was 5.7% in the past year and that is the normal yearly rate according to Tadawol platform and this growth comes from building financial partnerships with reputable organizations to meet the high expectations of loyal customers such as cooperation with forayed in 2009, which reflected on the company’s financial position tremendously and opened the gates to expand its operations in Asia and Africa more rapidly. The following table clarifies the financial results of Almarai in the last five years:

Table 5. Financial Positions of Almarai

Year	2015	2016	2017	2018	2019	Change % 2018-2019
Revenues	13,795,61	14,698,662	13,935,532	13,557.84	14,351.28	5.9%
Gross income	5,282,19	5,833,612	5,583,639	5,327.07	5,366.67	0.7%
Average share price	49.20	48.10	48.35	47.40	48.55	5.9%
Profitability	38.55%	38.35%	39.10%	39.29%	37.40%	-0.7%

Source: Almarai annual reports

None can deny the importance of analyzing the full position of the companies effectively. To guarantee high quality of building reflective business decisions and the most suitable methods to achieve this mission in case of Almarai are through SWOT and PESTLE analyses. Based upon the internal strength and weaknesses of Almarai the management must use TOWS to grab the potential regional and global growth opportunities by avoiding present business risk and threats.

The following details of the company are reflective of both the internal and external business environments of Almarai which faces post Covid-19, a challenging time ahead for business sustainability.

**SWOT Analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>➤ Long history of reputable brand</li> <li>➤ Remarkable brand position in the Gulf Union member countries such as Emirates, Kuwait, Qatar, Bahrain</li> <li>➤ Growing market regarding to the hot weather and need for beverages</li> <li>➤ Strong networks of distributors</li> </ul>	<ul style="list-style-type: none"> <li>➤ Major dependence on imported raw materials such as equipment</li> <li>➤ The dominated segments are dairy and juices sectors of Almarai</li> <li>➤ High operating costs</li> <li>➤ Quick changes of customers’ tastes</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>➤ Milk market is growing in GCC due to the importance of food substitution inventories</li> <li>➤ Increasing awareness by healthy diets among Arabian people</li> <li>➤ Increasing number of tourists for religious purposes (<i>Hajj</i> and <i>Umrah</i>)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Existence of many reputable competitors such as Nestle and SADAFCO</li> <li>➤ Flexibility of the market entry to have new national and international competitors</li> <li>➤ Crisis such as Covid-19 damaging the healthy business environment</li> </ul>

**PESTLE Analysis**

<b>Political</b>	<b>Economic</b>
<ul style="list-style-type: none"> <li>➤ The Gulf region is somehow stable politically with a minor exceptions beside there are limited conflicts.</li> <li>➤ Saudi government supports leaders of industries such as Almarai in food and agriculture markets</li> </ul>	<ul style="list-style-type: none"> <li>➤ Implication of exchange rate fluctuation in some markets</li> <li>➤ The consumers are spending carefully than any other previous time due to Covid-19</li> <li>➤ Drop of religious tourists to Harmain (Makkah and Madinah) due to pandemic</li> </ul>
<b>Social</b>	<b>Technological</b>
<ul style="list-style-type: none"> <li>➤ Social media played important role in creating healthy food awareness</li> <li>➤ During the festive seasons, the demand on beverages and soft drinks increasing tremendously</li> <li>➤ Availability of skilled employees to upgrade the brand equity into high levels</li> </ul>	<ul style="list-style-type: none"> <li>➤ Almarai concerns tremendously in spending on technological equipment like machines and developing new production mechanisms</li> <li>➤ Negative social media impact due to fake and unauthentic news spread due to presence of technological hazards</li> </ul>
<b>Legal</b>	<b>Environmental</b>
<ul style="list-style-type: none"> <li>➤ Changes in regulatory law and compliance of labor and taxation</li> <li>➤ Enforcement of new laws of 'social distancing' affecting the potential consumer spending</li> </ul>	<ul style="list-style-type: none"> <li>➤ Almarai launched many initiatives to sustain the health of green environment and face sacrifice of resources currently</li> <li>➤ Getting rid of the waste in health methods to guarantee sustainable status</li> </ul>

**MANAGEMENT OF ALMARAI AND ISLAMIC TEACHINGS**

As mentioned before that the religious impression is dominated in most of Arabian countries and especially in KSA, which considers the Islam as the main source of legalizing constitution in different aspects according to *Shar'iah* principles (Abbasi, Rehman, Bibi, 2010).

Therefore, management of Almarai considers the five pillars of Islam at the peak of company's culture, which reflects on the personality of the company from the core beliefs and practices. Here are the Islamic teachings that are implemented by Almarai:

*First*, Prayer (Salat): Muslims pray facing Mecca five times a day and Almarai motivates employees for the five times salat daily as essential part of Islamic principles through doing awareness sessions periodically and discuss the importance of praying and it is essential for existence of mosques in every factory or branch. Further, the management of each department organizes the time of the day and giving breaks five times per day by allocating sufficient time to pray collectively or individually (Mushtaq, Saghir, Kayani, Bukhari, 2014).

*Secondly*, Alms (Zakat): *Shar'iah* principles set a fixed portion of the Muslims' wealth every year to help reduce poverty. Management of Almarai pays Alms in many different ways such as donating for national and international organizations such as Saudi Red Crescent, WHO, UNHCR. Further, it donates to build hospitals and schools in developing countries such as Somalia as a part of Corporate Social Responsibility

(Mushtaq, Saghir, Kayani, Bukhari, 2014).

*Thirdly*, Fasting (Sawm): During the daylight healthy Muslims abstain from any kind of food or drink to share the feeling of hunger and thirst with poor for one month. The management of Almarai concerns these conditions and provide appropriate atmosphere for sustaining in health, as it reduces the shift time and giving allowances to afford Iftar breaks that guarantees all nutritional ingredients (Mushtaq, Saghir, Kayani, Bukhari, 2014).

*Finally*, Hajj: The management helps the employees to do the duty of Hajj through offering loans without interests to perform Hajj.

### **ISLAMIC CONCEPTS IMPLEMENTATION BY ALMARAI**

Almarai is an international organization that has diversity of nationalities and religions, which requires a professional dealing with employees regarding the Islamic concepts which distributes the responsibilities and duties fairly without any kind of discrimination. Almarai shows a great commitment by adhering Islamic concepts and implement them efficiently and here are the major concepts:

- ❖ **Patience:** working under stress is one of the most critical qualifications that should be existed in the employees of Almarai and management often engages the employees to be patient with hard conditions as Allah will reward them.
- ❖ **Truthfulness:** being obvious and clear in the workplace is a vital qualification in the employees of Almarai as the management notifies them that what is harder than doing faults is lying to hide those faults.
- ❖ **Faith:** having a faith in Allah is non-separated part of self-confidence and trustworthy in achieving the settled goals and management of Almarai motivates its employees that Allah will never let their spent effort goes for nothing and will reward them from different ways such as health and money and their working is part of their faith in Allah, prophet Mohamed mentioned this in his prophetic tradition.
- ❖ **Loyalty:** the company is loyal to the employees and compensates them by all required financial or psychological needs to guarantee their high performance and loyalty to the company.
- ❖ **Justice:** all the employees are pre-identified by their duties and responsibilities and they take sufficient rewards or fair punishments depending on the occasions and clear analysis of the performance.
- ❖ **Service to community:** the benefit of the individual is a part of the community's benefit and the role of the employees is sematic to increase socio-economic level of different people's standards. The management implants this concept in the employees and often shows them the results of hard working on tangible examples, in addition to the voluntary civil service that is done in supporting other organizations or sponsoring community's projects such as building of hospitals in developing countries in Africa (Abbasi, Rehman, Bibi, 2010).

### **SERVANT AND GUARDIAN LEADERSHIP**

It is ordinary to find a good management but it is hard to find effective leaders and Almarai considers servant and guardian characteristics as the main source to guarantee highly qualitative leadership. Further, the company's structure is effectively established

and depends on decentralization to integrate concept of *Shura* in the process of decision-taking.

Here are major concepts:

- ❖ Listening: the head of each department is required to listen to the employees effectively to evaluate the range of acceptance or satisfaction and analyze the development of the employees’ performance in identified period of time (Wajdi, 2017).
- ❖ Empathy: the intentions and perspectives of others is essential to gather different viewpoints of employees with open mind, which motivates them to increase their creativity to produce more productive ideas and highly spent effort (Wajdi, 2017).
- ❖ Persuasion: it is an ordinary to find conflicts among employees or between the management with employees; thus, management needs to discuss its decisions up to clear elements and persuade the disagreement sides of problem or the conflict with the taken decisions; also, the expressing of employees’ opinions should be accessible on wide range (Wajdi, 2017).
- ❖ Commitment to the growth of people: servant leaders in Almarai consider the employees as the most important column of the stakeholders, so that company’s management provides them with trainings and courses to build their own career effectively (Wajdi, 2017).

As one of the objectives that is making Islam a peaceful religion is the elimination of discriminating other people depending on their personal features such as religion, skin color, etc. thus, non-Muslims never feel by any kind of discrimination or Muslims getting more benefits than others, as it breaks justice, mercy, and peace concepts of Islam (Wajdi, 2017).

Islam covers all life functions, so the religiously healthy Muslims who commit by the basic concepts, they often be featured in their work and effectively perform in their position, whatever it is.

Lastly, there is big portion of managerial strategy of Almarai as the following matrix clarifies that how the problems are tackled in orderly manner:

Categories	Urgent	Not Urgent
<b>Important</b>	✓ Crises	✓ Planning (long and short-term)
	✓ Critical meetings	✓ Empowering others
	✓ Deadlines	✓ Quran recitation
<b>Not Important</b>	✓ Emails	✓ Gossiping
	✓ Projects	✓ Trivial Issues

Source: Abbasi, Rehman, and Bibi (2010).

## EPILOGUE

To summarize all of the previous paragraphs, Almarai is one of the best companies in industry of food and agriculture, the company has reputable success history for many decades and enjoys market leadership position until now. Almarai applies the Islamic concepts and principles as main source of governance of the company as it is tremendously impacted by Saudi culture, which itself enriched by Islamic traditions.

Implementing the Islamic managerial tools in Almarai reflects positively on the entire performance and leads to commitment of the employees and loyalty towards the company. Fulfilling expectations of the investors, as well as serving the community well through many different ways like donating to social institutions, building of houses to homeless in developing countries, and sponsoring humanitarian organizations to eliminate global problems like global warming and child labor problems and encouraging green technology are some of the real issues of the CSR pursuits by the company.

## DISCUSSION QUESTIONS

1. Looking at the growth pattern, would you recommend Almarai to expand internationally? Is the USA that is still the first global economy a best place for business expansion?
2. Suppose you were in charge of the company during the drop of the revenue recently, what would you do differently for business sustainability or what would you plan next to arrest short term drop in the profitability?
3. Is diversified ownership affecting the implementation of Islamic concepts in the environment of Saudi market that has presence of high purchasing power customers?
4. What are the most remarkable Quranic principles that can be easily recognized in the organizational culture of Almarai?
5. Is there any problem between Islamic management vis-a-vis a global securitization of trading IPOs for ownership of Almarai, if any?

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