Why Do Business in the GCC?

Part One: Significant GDP Purchasing Power and Projected Growth

By Max Rockwell and Joseph B. LaRocco

It is a known fact that the Gulf Cooperation Council (GCC) countries form an oil-rich region with the largest proven crude-oil reserves in the world—some 480-billion-plus barrels. What is not so widely known is that the GCC region's economy as a block has more than tripled over the last decade, surpassing well over $1 trillion on a double-digit growth rate with a population topping 50 million people. Six Arab states comprise the GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The United Arab Emirates is comprised of seven emirates, with Abu Dhabi and Dubai being the most well known.

The GCC's Gross Domestic Product (GDP) is expected to hit $1.7 trillion by the middle of this decade. According to the University of Pennsylvania's 2010 GDP Purchasing Power Parity (PPP) per capita survey, Qatar, the United Arab Emirates, and the State of Kuwait ranked number 1, 3, and 7 on the list respectively. In simple terms, as a block, GCC citizens currently boast the highest standard of living, with a booming population and an exploding economy. Another important statistic: the GCC countries have pressed ahead with economic diversification and effectively decreased the hydrocarbon ratio from 41 percent in 2000 to 27 percent as most recently measured. Growth has been driven by rising public-sector spending, especially on physical and social infrastructure, and buoyant private-sector activity. Displaying a heightened awareness of and sensitivity to regulatory issues, the GCC countries are easing barriers for entry and have established a pro-business stance, attracting overseas investment and companies to the region in a newly transparent environment.

Most of the large U.S.-based corporations are already doing business in the GCC. Established brands such as Coca-Cola, candy giant Mars, Hallmark, Ford, Chevrolet, and many others established footholds there decades ago. Recent strides in technology, communications, and logistics have made the world a smaller and smaller place for doing business. International expansion is no longer restricted to large companies. Small and medium enterprises (SME) are now able to compete half a world away, if they make the right contacts and align themselves with the right distributors and strategic partners.

According to the United States Small Business Administration website (SBA.gov), two-thirds of the world's purchasing power lies outside the United States; even more significant, 70 percent of all U.S. exporters have fewer than 20 employees. Obviously, small companies in their first year or two of operations would be well-advised to execute their business model and concentrate on the U.S. market, unless they are extremely well-funded or very profitable. Alternatively, depending on the type of product and target market they are aiming for, exporting sooner rather than later to the GCC is probably a wise move.

The purchasing power that consumers and businesses have in the GCC is a major factor that cannot be ignored. Population growth and business growth in this emerging market are also expected to continue. Barriers to entry are now quite low, since there is little competition in certain industries.

Consumers and businesses in the GCC prefer premium products and quality goods, including healthcare products, electronics, luxury items, personal-care products, kitchen appliances, clothing, jewelry, automotive products, gift items, convenience goods, specialty goods, and durable consumer goods. Low-cost, cheaply made products do not typically achieve favorable sales in the GCC and are not a good choice for establishing a customer base and following.

Quality food products are also in high demand. According to a 2012 USDA Foreign Agricultural Service report, the harsh climatic conditions in the GCC have led to a reliance on various food imports, which account for approximately 90 percent of the region's food needs. This scenario provides an excellent opportunity for U.S.-based food companies looking to either start or expand exporting to other countries to develop brand-name recognition.

Companies should not only ask themselves "Why do business in the GCC?" but also "Why *not* do business in the GCC?" Some possible reasons for not doing business in the GCC would include the company's small size, offering a product that is not likely to be widely accepted in the GCC based on consumer preferences, offering a low-quality product that relies

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on heavy volume to make a profit, or the presence of major competitors already well-established in the region.

Company management should carefully plan their strategy for doing business in the GCC. Today, an SME does not have to establish a large budget to execute its plan, but it should be committed to that plan and establish reasonable expectations. Choosing the right consultant or strategic partner is important and can save the company time and money when it comes to establishing and executing a business plan in the GCC. The right consulting firm should not only have numerous contacts in the GCC but also have direct contacts with the right parties, rather than numerous middlemen that may waste the company's time and resources.

The various ways of doing business in the GCC are not limited to selling products in the region. Other approaches include licensing agreements and joint-venture agreements. Occasionally, distributors may seek exclusivity rights for a particular territory and pay an exclusivity fee for that privilege. Some companies may even be interested enough in the company and its products to consider purchasing equity in the company, especially if it is a public company.

The main reason for deciding to do business in the GCC is the incredible GDP purchasing power that exists in that region. The various considerations a company should take into account include the type of product, the consumer preferences for that type of product, competitive products already in that market, and the cost of entering into that market. Companies with quality products that want to establish a new market and develop brand-name recognition ahead of their competition have already begun the process. A company should establish a good plan and consider creating a long-term goal to achieve initial sales and develop a strong consumer base that will continue to grow over the years. **N**

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