

# The Middle East - trading cross roads of the world

**Nancy Westcott, President of Westcott Distribution Inc., was looking to expand the distribution channels for a unique pump product. What follows is a synopsis of the research Westcott conducted in order to assess the business possibilities for GoatThroat in the Middle East.**

The Middle East is one of the major trading crossroads of the world as it lies between Europe, Asia and Africa. The Suez is a major 'freeway' between Asia and Europe. The location is ripe with possibilities for new products, and, with the right trading partner, a good business risk. Imported goods outweigh exported goods by a substantial margin. Most, if not all, of the products which are sold in Europe, Asia and the Americas are in abundant supply in the Middle East which means that the same kinds of industries also exist, if in a somewhat different mix. Since the markets are relatively saturated with existing products and the existing distribution networks sell to the same end users, competition is quite fierce. New or unique products are very desirable as they give a local company the opportunity to differentiate itself from its competitors

thereby opening up doors to new end users. Because of their discerning nature, the Middle East customers are very attuned to looking for high quality products and many distributors are actively seeking new opportunities.

In recent years, there has been an incredible, explosive growth of manufacturing and production facilities throughout the region as countries seek to become less dependant on income from the ever fluctuating oil market and also seek to be increasingly independent of imported goods. Pumps of all kinds are used in industries such as manufacturing and processing of items including pharmaceuticals, steel, oil, electronics, textiles, food, plastics, to name a few. Pumps must be robust to withstand the range of aggressive industrial chemicals, extremes of temperatures, and

the inevitable dust. Because production facilities are routinely located in remote areas, it is desirable to have a pump that does not require power, but can offer many of the benefits of an electric pump. GoatThroatd Pumps are such products, and Paul Campbell, an Australian Expatriate, and CEO of M.A.H.Y. Khoory & Co, the UAE's oldest (70 years in business) and largest distributor of water pumps, generating sets, diesel engines and accessories recognized these unique qualities in the Goat-Throatd series of pumps.

## **Cradle to grave - geopolitics and business**

There is generally a geographical and cultural confusion about this part of the world. Not all the Arab countries are in the Middle East. The 'Arab League' takes in about 21 countries stretching across from North Africa (Morocco and east, from there down round the Red Sea to Djibouti with everything in between), through the Near East (Palestine, Israel, Jordan) and the Middle East (the GCC, Syria, Iraq, the Yemen and perhaps Afghanistan). Iran and Israel are not included in the Arab League because they are not Arab, although Israel is certainly Near East ('Middle East' to CNN) and Iran is certainly Middle East ('Persia' is what they prefer). What several large international organisations are doing is to call the area MENA for Middle East North Africa. Of course, if you go back far enough and you have Persia (Iran) and Asia Minor (Afghanistan and North), areas that really had no well defined geographical boundaries. So

Figure 1:  
Dubai centre  
(picture courtesy of  
Explorer Publishing).



when the CNN reporters talk about "trouble in the Middle East" they usually mean the Near East (Palestinian/Israeli conflict).

The governments in this area are as varied as the terrain. Several countries are constitutional monarchies: Morocco, Jordan, Qatar, Oman, and Kuwait and are ruled by a King, Sultan or Emir. Saudi Arabia is a Monarchy with a Council of Ministers; Bahrain and the countries of the United Arab Emirates are run by Emirs or Sheikhs, although the UAE is an Emirate federation and the countries typically work together as a unit; both Kuwait and Bahrain also have elected parliaments with varying degrees of influence; Israel and Lebanon are Parliamentary Democracies while Egypt, Syria and Tunisia are Republics.

Some of these countries are organised into a regional trading group: The Gulf Co-operation Council consists of Oman, Kuwait, Qatar, Bahrain, Saudi Arabia and the UAE. The GCC is an economic and policy-coordinating forum for its members. While it cannot impose trade laws and policies on its members, there has been a growing agreement between the members on certain issues including establishing tariff ranges, standard-setting and intellectual property protection. Conducting business with a company from the GCC has the advantage of one contract with coverage of six substantial countries, especially if the company has significant sales offices throughout the region. However, the selection of the partner is critical. One must be mindful that each market is different and requires qualified local partners to exploit its opportunities.

The governments in many of the countries either are currently run by a single family in that country, or have been in the past, with the use of extended family members in positions of power throughout the political rule and many businesses. At present, wholly or partially government-owned enterprises dominate the economy. Consequently, in these countries, the government is essentially the largest purchaser -



Figure 2: Oman (picture courtesy of Explorer Publishing).

and supplier - of goods and services. As with most family owned businesses, the jobs are for life regardless of performance, as there is usually one family member who will cover for another. These positions of power have always been jealously guarded and are rarely shared with others outside of the family.

Until recently, oil has always produced enough money so that the populations' social and economic needs are handled by these profits. However, the recent pressure of fluctuating profitability from oil exports combined with increased imports and substantial population growths throughout the region has led to the need to develop other businesses and rely less on oil and gas as the sole financial supports. Most countries are committed to improving their infrastructure in order to support new investment and continued economic growth through foreign investment and privatisation. To encourage growth and stability, doors are now open to investors from other countries to participate as business partners or business owners or through investment in the local stock exchanges. Jordan, for example, is in the process of liberalising its investment and customs laws in an effort to attract foreign investment and now allows foreign investment in its stock exchange. Oman has opened the

country to foreign participation in the economy, particularly in the form of joint ventures, especially in the industrial field. In Bahrain, foreign investors are welcome to set up licensed export industries with 100% foreign ownership and Emirate of Dubai in the UAE now allows property sales to foreigners in certain up-market developments.

Privatisation of some of the governments' businesses is becoming an economic necessity as a means to reduce government expenditures and to turn around unprofitable state-owned businesses. Egypt is divesting public sectors holding in production and manufacturing companies and encouraging private sector investment in areas historically controlled and operated by the public sector - such as electricity, roads, airports, ports oil and gas transmission. Saudi Arabia is working on privatising its National Airline. Most countries move very carefully in privatising its business to avoid mass-firings in unprofitable businesses. One successful method of privatisation is Build Operate Transfer (BOT). One of the first BOT projects in the water treatment sector is the Ajman wastewater project in UAE. The concessionaires are Black & Veatch US International and the Abu Dhabi-based KEO International Consultants. The project cost in excess of \$700 million. The



Figure 3: Dubai Explorer (picture courtesy of Explorer Publishing).

concession is to extend for 30 years and will include responsibility for billing and collection of water connection fees. Other income from this venture is to be secured through the sale of treated effluent back to the municipality and the sale of water to other interested buyers.

Both the privatisation efforts and foreign investments have resulted in reducing the dependency on oil and a concomitant increase of other businesses. Saudi Arabia has the largest oil reserves and is the largest exporter of oil in the world. However, the non-oil sector of the gross domestic product is now in excess of two-thirds and posts annual growth rates of 4%. In 1980, approximately 34% of Bahrain's GDP was derived from oil, while now this sector is less than 16% with a similar story in Dubai, which now depends greatly on trade and tourism.

### Industries and growth

Some of the business sectors are pretty obvious - oil exploration, production, and refining and all of the support businesses and industries which serve these primary businesses; natural gas

fields and production of liquid natural gas (LNG) for use locally and export; water resources management and desalination plants, ancillary equipment and support services; air conditioning and refrigeration equipment. Agriculture is a fundamental business sector for Lebanon, Syria, Egypt and Saudi Arabia. Textiles, such as Egyptian cotton are considered by many to be the finest in the world. Other business opportunities are less obvious.

Mining is a huge business. The region is rich in natural resources of all kinds - Morocco has the world's largest reserves of phosphates; substantial gold reserves are found throughout the region' Jordan has a thriving minerals mining businesses and Egypt's iron mines have been carefully developed so there now exist thriving iron and steel manufacturing businesses.

There are increasing numbers of manufacturing businesses downstream from oil and the mining of natural resources such as refining of petrochemicals and derivatives, production of fertilisers, drugs and pharmaceuticals, cosmetics and toiletries. This allows the countries to rely less on imports from the West for such fundamentals. Additionally, these products are exported to other countries in the region and as far away as Europe, Japan and the US. Israel has very few natural resources except for its highly skilled labour force. Therefore, its industry focuses on investing in research and development and promoting the technological and qualitative edge of Israeli products in international markets.

The UAE enjoys a booming re-export trade. Dubai, its commercial centre, has developed a significant free trade zone - the Jebel Ali Free Zone that has significantly reduced the UAE's dependence on trans-shipments. Nearly 1000 companies from over 70 countries and major corporations such as Sony, Aiwa, Honda, Nissan, Coleman and Japan's Shivaki are present in the Zone. Dubai has extended this concept to 'virtual' businesses in

newly established free zone areas called 'Internet City' and 'Media City', with a soon to be launched "Health City" all of which have favourable visa and ownership conditions. Oracle, Misrosoft, CNN are all major investors in these areas.

Development of infrastructure is a major component in support of the success of these other businesses. Modernisation of telephone systems, improvements in the energy sectors, reconstruction and new construction of roads and highways, residential areas and business districts are attracting much foreign investment. Water for most of the region is from seawater desalination plants, because the ground water has dropped dramatically, so pipelines are now spreading throughout the area as well.

Technology and telecommunication-based business are widespread and substantial. Saudi Arabia has much business related to defence and aviation, including computer software, avionics, aircraft repair, radios for military use, and other electronic components. Motorola, Siemens and Ansaldo are deeply involved in Lebanese reconstruction projects. Microsoft is investing heavily in countries from the Gulf Cooperation Council.

The industrial, manufacturing and population growth in the region together with exposure to globalisation influences has created a substantial increase in electricity consumption, with demand estimated to rise at over 6% per year in countries such as Israel, Saudi Arabia and Bahrain. Production of power and electrical energy is becoming a huge growth business.

With the globalisation of the area and increased brand awareness, an interesting opportunity is franchising, although different countries have different rules that must be observed. Not surprisingly, American fast foods are the dominant food franchises (Hardee's, Kentucky Fried Chicken, Wendy's, Pizza Hut, Subway, Burger Hut, Baskin

Robbins). Panasonic, NEC, Toshiba, Sanyo, Nissan, Honda, Toyota, Volvo, Mercedes, BMW, Ford, Chrysler, Jeep, Jaguars and Rolls Royce dominate the electronic and automobile franchises. There is much opportunity in the area for clothing stores, hardware stores, pharmacies, automotive service centres, beauty salons, testing centres, and photocopy stores.

## When opportunity calls

If your company is looking to expand distribution of pumps and related equipment, the Mid East may be a good opportunity for you. Well-placed advertising or product announcements in the right publications will help to get you noticed in your target markets. And if they come to you, they have already qualified themselves as wanting to make a successful relationship.

Westcott was looking for a company that had a long standing good reputation in the market for selling quality products that required a decent amount of technical knowledge to establish the value in the buyer's mind. In addition, the company needed to be recognised in a wide geographical area.

Clearly, all of the steps you take to qualify a potential partner in your own country must be undertaken here. This will most likely be a very long distance relationship so you must be extra diligent in vetting the prospect. At minimum, a telephone conference call is required. You must decide if the partner is right by asking the following questions:

- What is it about my product that attracted you?
- What niche does my product fill?
- What applications do you see my product in?
- What kinds of businesses in your target areas would use this product (who is the target customer)?
- What are the competitive products, their pricing and do you carry any?

- How big is your staff/how many sales offices do you have?
- How do you manage sales - direct or through other distributors or something else?
- What sales and marketing activities do you plan to implement for the promotion of this product?
- Will you keep our branding?
- What volumes of sales do you see?
- Is there special licensing, insurance or other required for this product?
- Can you give me the names and contact information of three of your principal suppliers?

When you talk to the principal suppliers, find out the length of the relationship and how the prospective company performs on the qualifying questions above. Payment terms and history are critical as well. If you can find out what the suppliers like and doesn't like about doing business with your prospect, so much the better.

A good partner will be prepared to show you product at trade shows. The Big Five held annually in Dubai attracts over 80 000 attendees from the Middle East, India, Asia and Africa and is a terrific opportunity. Other regional trade shows will help to get the word out.

A good partner will be prepared to show you product at trade shows. M.A.H.Y Khoory launched GoatThroatd Pumps at the Dubai Big 5, an industrial exhibition, that is held annually in Dubai and attracts over 40 000 industry and contractor personnel from the Mid East, India, and Africa and the response was extremely satisfying for both parties.

There are some inherent differences between the Middle East and much of the rest of the 'western' world. Many businesses work a 'split shift' i.e., 8 to 1 and 4 to 7. The physical address of the company is frequently different than the mailing address. In some countries, there are no street numbers and no mail delivery, so everyone has a PO

Box. All shipments for samples or product have a phone number attached so the carrier can call and ask for 'the location'. Some countries have 'ever green laws'. This means that once a contract is signed, you can never get out of it, but this practice is dwindling, as it doesn't foster investment or diversification. Many of the countries are now embracing WTO Membership and principles that will eventually eliminate this - but it is still in practice. A good local lawyer will advise you properly. Due to dust from the desert, it is good to deliver product in plastic protection so that the end user sees the product in pristine condition.

While many companies are as honest as you, and business could be conducted on a handshake, contracts are critical, and getting a local lawyer to verify the tenants of the contract is a sensible practice. Consider the benefits of 'e-Negotiating' the contract. You send a contract in MS Word or other editable format with the 'track changes' button engaged for the entire document. The prospective company's representative makes changes to the document and you receive back the document under a 'Contract Version 2' file name. The changes and comments throughout the negotiation can be viewed by all. And the work can be accomplished independent of time and space - you are in your time zone and he is in his. There is no chance for 'but you agreed to ...' as it is all in black and blue and red.

The tremendous business opportunity in the Middle East will continue to grow regardless of the vicissitudes of the peace process. The time is ripe for exploring this area as the distributors and end users are actively seeking new products.

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