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Accelerating Growth

Business Analysis:
Home Maintenance Apps
Saudi Arabia

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1. Introduction

The mobile residential facility management services market is a fairly new market to Saudi Arabia, with the debut of the first mobile applications to serve homeowners' maintenance needs in 2015. However, it has been identified recently as one of the top 10 sectors with high potential of growth for electronic applications¹. This report examines the mobile/online Saudi residential facility management services market by identifying the different drivers, segments and challenges of this growing industry in an effort to estimate its prospects and the potential it offers to both investors and entrepreneurs. The case for investing in residential facility management e-commerce platforms in Saudi Arabia is also examined, where the housing needs of a young and growing population continue to rise, internet penetration of the service sector is shifting the user landscape, and the growth of e-commerce in general are collectively driving the growth of this segment of online platforms and mobile applications, making it an increasingly attractive and viable sector for entrepreneurs and investors alike.

¹Steve. "Top 10 Tech Startup Business Opportunities in Saudi Arabia." *Life in Saudi Arabia*, 6 Nov. 2017, <https://lifeinsaudi Arabia.net/blog/2017/11/06/top-10-tech-startup-business-opportunities-in-saudi-arabia>.

2. Market Overview

Residential facility management services are defined as services provided to residential units/complexes to ensure their smooth functioning. Facility management is the professional management and the effective delivery of support services to the organizations it serves. This includes residential facility management, where we notice service providers recently shifting their offering to meet customer needs through online platforms and/or mobile applications whereby consumers select and book the specific facility management service they need, at the time they need it.² Traditionally, services include property maintenance, cleaning, security, and environmental management. In terms of value, the total revenue generated by companies offering residential facility management services in Saudi Arabia broadly determines the total market size.

From this larger market definition, we will attempt in the next section to isolate the soft from the hard services, then further segment the soft services into outsourced segment and in-house. Finally, we will select an acceptable conversion ratio from conventional to mobile application and online platforms to apply to the soft outsourced services segment in order to estimate the size of this market.



²Coleman, Lauren deLisa. "Here's Why Home Maintenance, Repair Is the next Big Trend in Service Apps." *TheStreet*, 17 Mar. 2016, www.thestreet.com/story/13487022/1/home-repair-maintenance-next-big-trend-in-service-apps.html.



2.1 Facility Management Market Segmentation³

The total facility management market in Saudi Arabia is \$29.6bn of which \$7.1bn is residential while the rest falls under the category of industrial and commercial facility management. The residential segment is expected to grow 7.6% CAGR in the next 5 years. The residential facility management market is categorized into different services including property, cleaning, security, support, and environmental management (Figure 2). Property makes up 35% of the services, including HVAC and mechanical/

electrical maintenance work. The larger facility management market can also be categorized into hard (47%) and soft (39%) services and others (14%). In terms of mode of service, it is segmented into in-house and outsourced services. The outsourced mode of service represents 28.6% of the total market, therefore, taking the outsourced mode of the residential FM market, the total available market (TAM) is approximately \$2.1bn (SR 7.8bn)

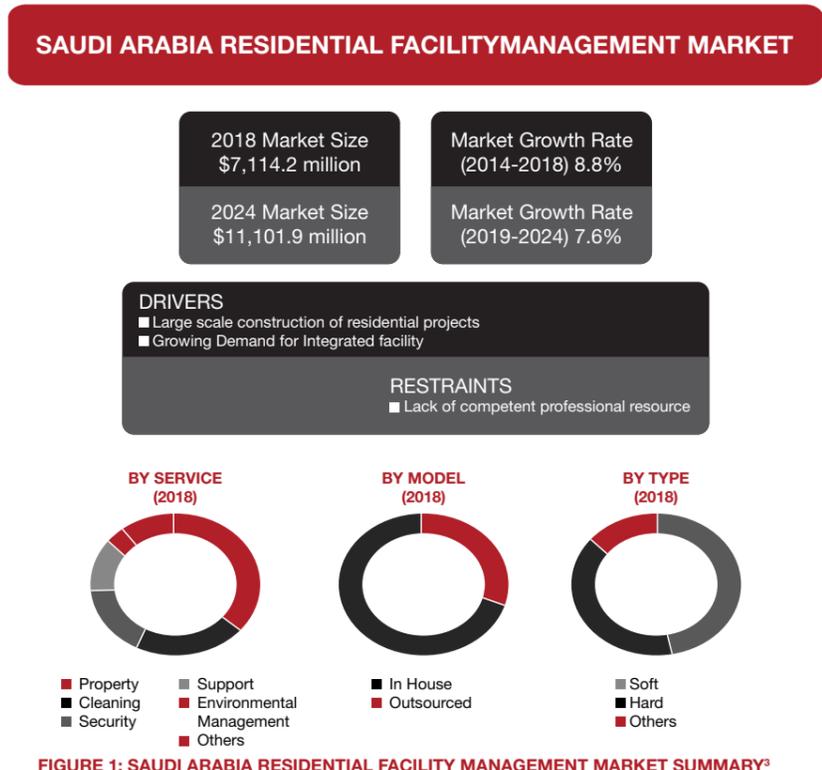
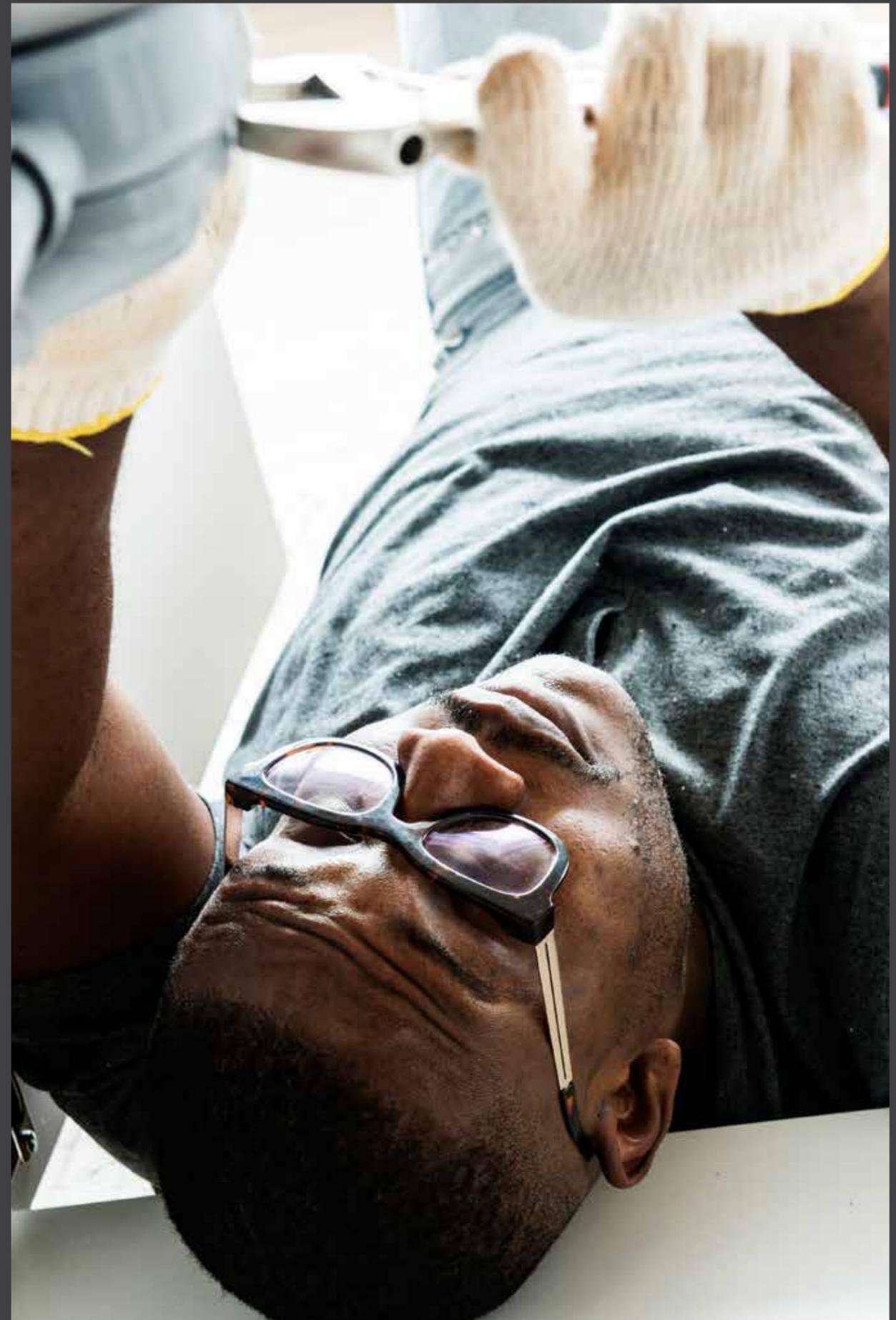


FIGURE 1: SAUDI ARABIA RESIDENTIAL FACILITY MANAGEMENT MARKET SUMMARY³

³“Saudi Arabia Residential Facility Management Market.” Prescient & Strategic Intelligence, 2019.





Saudi Arabia Residential Facility Management Market

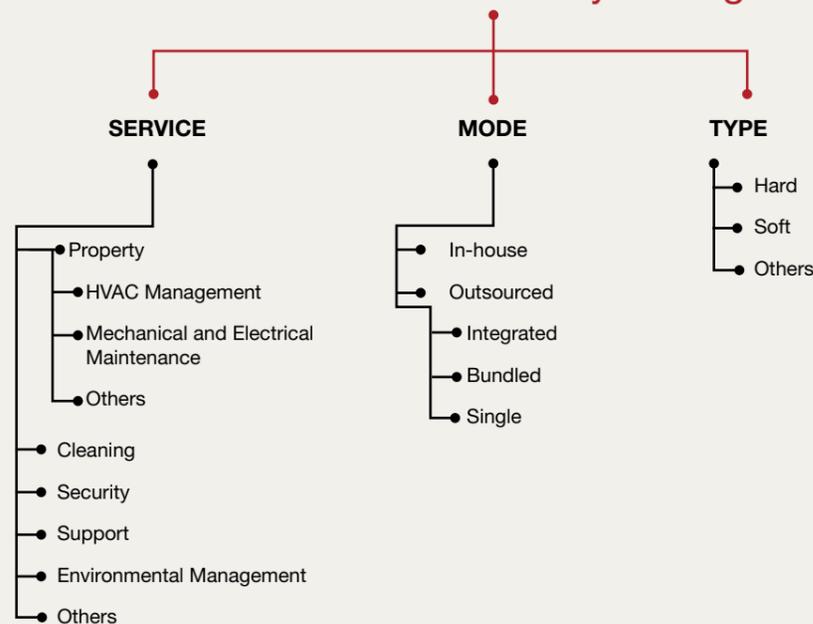


FIGURE 2: SAUDI ARABIA RESIDENTIAL FACILITY MANAGEMENT SERVICES MARKET ⁵

2.2 The Residential Facility Management Services Mobile Application Market

It is expected that 30% of the Saudi home maintenance market will be mobile in the next 5 years - mainly in the form of mobile applications followed by online platforms.⁴

In the following section, we examine the demand drivers for growing this market, market characteristics, segmentation, and finally explore the competitive

landscape and the main players. into hard (47%) and soft (39%) services and others (14%). In terms of mode of service, it is segmented into in-house and outsourced services.

A. MARKET DEMAND DRIVERS

1. Saudi Housing Market

The housing market demand in Saudi Arabia

⁴إيهاب فاروق . "مقابلة-مستثمر سعودي يقتحم سوق الصيانة المنزلية بمصر في 2018". Reuters, Thomson Reuters, 21 Oct. 2017, ara.reuters.com/article/businessNews/idARAKBN1CQ0AE

enjoys a positive outlook in the long term driven by young population growth, rising disposable income, urbanization, and an increasing number of independent nuclear families, as well as the rollout of major government backed housing projects.

With a young population (70% of the population being under 40), Saudi Arabia's workforce increased at a CAGR of 3.4% from 2010-2017. The population is concentrated in three cities; Riyadh, Jeddah, and Makkah, collectively making up 50% of the population. Riyadh and Jeddah are the two largest cities with the largest population due to business opportunity and political activity. This demand will also come with the trend shift from villas to apartments, a shift associated with weaker purchasing power and lower government spending. In 2018, the apartment prices edged up in comparison to lower villa prices. The average prices of villas were down 24% in Jeddah, 5% in Riyadh, and 28% in the Eastern Province, whereas prices of apartments were flat in Jeddah, up 36% in

Riyadh, but declined in the Eastern Province.⁵

There are 5.46mn households in Saudi Arabia of which 64.1% are Saudis and 35.9% foreigners.⁶ The real estate activity (9.4% of non-oil GDP) in Saudi Arabia grew 2.2% in 2018 in part due to "Sakani", a housing program implemented by the government that aims to provide a number of affordable housing products on a monthly basis to citizens. "Sakani" delivered 313k units in 2018, and a total of 583k units since its inception in February 2017. The Ministry of Housing announced 200k citizens who are eligible for "Sakani" housing products and is expected to accelerate the transfer of units to 60% to meet the National Transformation Program target ownership ratio by 2020.⁷ Furthermore, there are some regulatory efforts being implemented such as white land tax, large housing schemes and the mortgage law. These initiatives are the first steps to shift the housing sector back into a healthy growth trajectory.



FIGURE 3: NUMBER OF HOUSING UNITS IN SAKANI PROGRAM⁷

HOUSING PROJECT	NUMBER OF HOUSES
Memorandum of Cooperation between Katerra and the Eskan Program (Saudi-U.S. Partnership)	50,000
Memorandum of Residential Real Estate Development on the Al Asar Project (Saudi-China Partnership)	17,000
Memorandum of Residential Real Estate Development on the Telal Alghorob Project (Saudi-China Partnership)	9,500
Jeddah Downtown (Phase 1)	12,000

FIGURE 4: SAUDI ARABIA MAJOR UPCOMING/ONGOING HOUSING PROJECTS¹¹

⁵"Housing Bulletin." General Authority for Statistics, 2018.

⁶العربية نت . "5.4 مليون وحدة سكنية بالسعودية تلتها مشغول بأسر أجنبية." العربية نت، العربية نت، 5 Dec. 2017, ara.tv/bn68w

⁷Khan, Asad. Saudi Economy 2019. Jadwa, 2019, pp. 1-29, Saudi Economy 2019.

2. Residential Facility Management Market in Saudi Arabia

Historically, the home maintenance market in Saudi Arabia can be described as fragmented, unregulated and unorganized, in both pricing and quality of output. The supply depended mainly on technicians working after hours, many of whom were illegal workers. A small segment of affluent households were contracting large maintenance companies as an exception. However, a survey of the GCC market shows that homeowners shy away from being tied down by pricey annual contracts.⁸

As of November 2017, the number of home maintenance establishments registered with the Ministry of Commerce in Saudi Arabia reached 801 commercial registrations.⁹ The existence of organized maintenance institutions has enabled households to obtain quality reliable service at a reasonable and comparable price, due to increased competition, specialization of technical workers, as well as a crackdown on illegal labor.

However, the lack of professional resources for quality facility management is a major factor affecting the market growth in Saudi Arabia. As facility management is a labor-intensive industry, any shortage in competent labor results in the ineffective management of residential facilities in addition to increasing the burden of hiring new resources and imparting the required training.

This complicates the job of facility management service providers, as training unskilled labor amounts to an additional expenditure for these companies. Moreover, as many companies in the country rely heavily on an expatriate workforce, particularly from South Asian countries such as India, Pakistan and Bangladesh, frequent changes in immigration policies and regulations pose a major challenge to establishing a strong base of skilled labor in the residential facility management market in Saudi Arabia.³

Given the lack of in-house facility management expertise and the growing need for companies to focus on their core competencies, the demand for outsourced facility management services is rapidly gaining ground in Saudi Arabia, further resulting in the creation of lucrative growth opportunities for new market players. The increasing affluence in the market as evident by increasing GDP per capita (as per the World Bank's data, Saudi Arabia's per capita GDP reached \$20,849.3 in 2017, a growth of 4.3% from 2016) is resulting in the increased adoption of HVAC systems among Saudis for cooling applications in extremely hot weather conditions. This demand increasing effect can be applied to other categories of services, making the range of service offering in the market wider and more specialized.

“While the growing end-user preference for outsourced services is a major growth opportunity for the players in the Saudi Arabian residential facility management market, the challenge of procuring and retaining quality professional resources remains a growth constraint.”

3. Internet & Mobile Penetration

Global Internet penetration has witnessed a steady growth over the past few years. There are 3.2bn Internet users globally (43% internet penetration in 2017), a number which is expected to grow to 3.8bn (49% Internet penetration rate) by 2020. The Saudi Internet penetration rate stands at 93% significantly higher than the global Internet penetration rate of 43%.¹⁰ Saudi Arabia has a total population of 33mn with an urbanization rate of 84%, and 58.5% of the population are under 30 years old.¹⁷ The Kingdom has a unique mobile user penetration rate of 71%.³

4. E-Commerce

Rapidly growing e-commerce markets such as MENA, India, and Central Europe account for only 2.5% of the worldwide e-commerce spending.³ Although Saudi shoppers still prefer to make purchases through traditional brick and mortar channels, there is a rapid shift towards online shopping. The country's young population, increasing smartphone penetration, and government's focus on e-commerce is steering the shift towards online shopping. Saudi shoppers on average shop online at least 4 times a year with an average yearly spending of \$294.¹¹ The number of users in the Saudi e-commerce market is 21.6m, which is equivalent to 64% of the population. The e-commerce market stood at \$6.3bn in 2018 and is expected to grow to \$10bn by 2022 (10% CAGR).⁵ This is only 3% of the market, far below the global industry penetration of 10%. The top 3 online shopping cities of Riyadh, Jeddah, Dammam/Khobar make up 70% of the market.¹⁰

As Saudi Arabia is dominated by a young population, the largest age group who shop online are consumers 25-34 years old; they make up 35% of the e-commerce market. The services category dominates the B2C e-commerce market, accounting for 67% in 2016.³

⁸King, Neil. "Fixing up the Maintenance Industry." ArabianBusiness.com, 18 Aug. 2015. www.arabianbusiness.com/fixing-up-maintenance-industry-603148.html.

⁹سلطان الخميس. "801 سجل تجاري لمؤسسات الصيانة المنزلية في السعودية." صحيفة الاقتصادية, 22 Nov. 2017. www.aletq.com/2017/11/23/article_1287991.html

¹⁰E-Commerce in Saudi Arabia ." Communications and Information Technology Commission, 2018.

¹¹Saudi Digital 2019. Hootsuite , 2019, Saudi Digital 2019.

In the Saudi market, the different payment methods for e-commerce transactions are credit cards, e-wallet, cash on delivery, and bank transfer (or Sadad). Credit cards make up the largest payment method, which indicates the adoption of new and better payment technologies, and an increase in the utilization of credit cards among the Saudi population. The recent introduction of MADA II, which allows shoppers to use ATM cards, may have contributed to this increase (Figures 5 and 6 below).

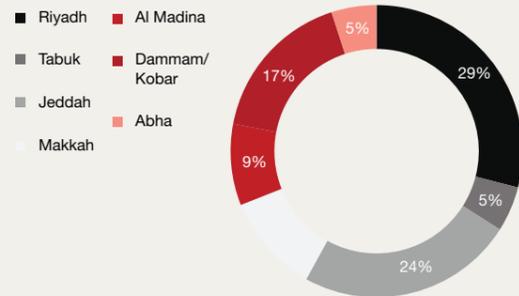


FIGURE 5: TOP 6 ONLINE SHOPPING CITIES¹²

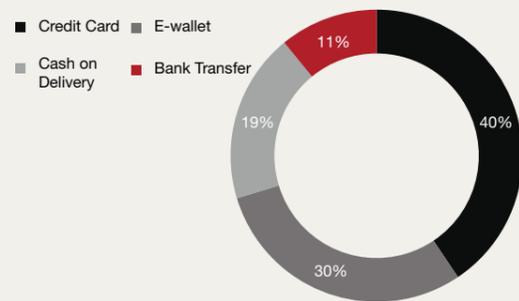


FIGURE 6: E-COMMERCE PAYMENT METHODS IN SAUDI ARABIA¹³

B. Market Characteristics

With the absence of registered IP and software proprietary technology, the barriers to entry to this market can be considered low- at least from a technical perspective. However, as in the case of the ride hailing giant Uber, it is first mover advantage, high quality customer service and reasonable pricing that allow the leading players to maintain market share. Customer loyalty and retention present the largest challenge. The first mover was B8AK in 2015, followed shortly by Maharah in the same year, followed by three others in 2016, then one each in 2017 and 2018, and recently 2 more in 2019. As the market becomes lucrative with more homeowners adapting to residential facility management applications, more competitors are expected to enter the market.

In addition, market players need to be highly adaptable to changes in consumer behavior. For example, consumer mindset is shifting to an on-demand mindset rather than waiting for a scheduled appointment. On the other hand, with the market adapting rapidly to mobile payment technologies, market players must incorporate such payment options in addition to cash payments. The market for maintenance apps is currently unregulated. Taxation, and other newly introduced regulations may apply further pressure on margins in the future.

“Low barriers to entry make first mover advantage a key element for success, however customer retention remains a major challenge.”

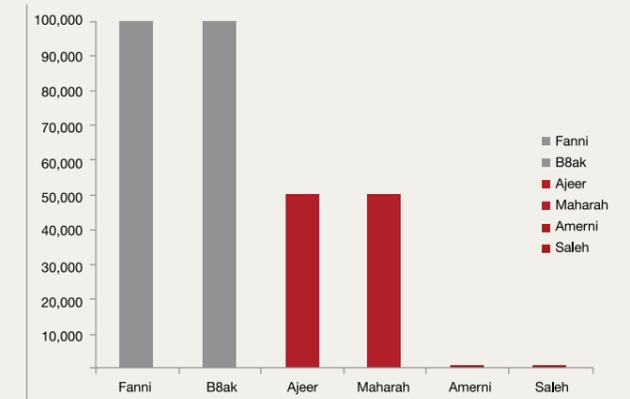


FIGURE 7: NUMBER OF DOWNLOADS (Android only)¹⁵

The revenue model for all the players is fee based (15-20% of the invoiced amount), however there are two distinct labor sourcing models: 1) Contracting professional companies and service providers (e.g Amerni, B8ak). 2) Contracting freelance technicians (e.g: Maharah, Fanni).

C. Market Players & Competitive Landscape

Since its inception in 2015, the home maintenance application market witnessed a number of new entrants, and is expanding rapidly. The competitive landscape in the home maintenance B2C space in Saudi Arabia is still nascent. The home maintenance app players are Fanni, Ajeer, Maharah, B8ak, Sakrobe, Amerni, Fix, Saleh and Mujiz. Fanni and B8ak lead the market by number of downloads (Android only), with +100k downloads, followed by Maharah and Ajeer, with +50k downloads. Sakrobe has +10k downloads, whereas Amerni and Saleh both have +1000 downloads, making them the smaller players in the market (as of October 2019).¹⁴

¹²Saudi Arabia 2019 Outlook.” MEFIC Capital, Jan. 2019.

¹³ECommerce - Saudi Arabia: Statista Market Forecast.” Statista, 2019, www.statista.com/outlook/243/110/ecommerce/saudi-arabia.

¹⁴Chrome advisory internal research.

¹⁵Google Play. The number of downloads are Android only.

D. ADDRESSABLE MARKET

The Total Available Market (TAM) in Saudi Arabia is SAR 7.8bn with a market size of 5.4mn households from a total population of 33mn. On average, each household spends on maintenance SAR 1444 annually. The Serviceable Available Market (SAM) is expected to reach 30% of TAM in the next 5 years.¹⁶ The unique mobile user penetration is 71% and each household has an average of 6 members, which leads us to assume that every household has at least one member with a smartphone and using mobiles applications. Hence, the SAM is expected to be SAR 2.3bn in Saudi Arabia.

Serviceable Obtainable Market (SOM) is approximately 300k downloads (the average download of all the players in the market) multiplied by the average spend per household on maintenance of SR 1444, resulting in a SOM of SR 433.2mn.

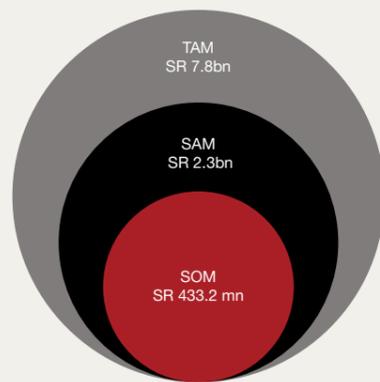


FIGURE 8: SERVICES TARGET MARKET

Market Risks:

-  **Low barriers to entry**
-  **Service provider retention**
(i.e. the service provider and the client trying to circumvent the app in a future business transaction)
-  **Client retention**
(price sensitivity of client base)
-  **Geographical expansion**
(expansion strains HR dependable functions)

Product Risks:

-  **Regulatory risks**
unregulated market (new regulations and taxations could be introduced in the market that could disrupt the business model or create pressures on margin)
-  **Reputation risk**
rapid growth is a challenge to quality control
-  **Credit risk**
cash payment collection dependency
-  **Supply shortage risk**
sudden supply shortages of service providers

3. Conclusion

The residential facility management mobile application market is one of the top 10 growing app markets in the region¹⁷. Existing players have managed to get a considerably high market share, based on downloads. However, the real market share depends on the retention of these users and their activity. While the market in Saudi Arabia is growing due to favorable demographics, as of the date of this report, the total number of players in the market is still around 10. Nevertheless, given the low barriers to entry, this number is expected to increase in the near future. Therefore, this sector poses a promising opportunity for both entrepreneurs and investors. We expect some of the existing players to continue their growth trajectory based on first mover advantage, hence attracting investments at larger valuations, while increasing product offering and the breadth of their client base.



¹⁶ فاروق من إيهاب. "مقابلة-مستثمر سعودي يقتحم سوق الصيانة المنزلية." Reuters, Thomson Reuters, 21 Oct. 2017, ara.reuters.com/article/businessNews/idARAKBN1CQOAE.

¹⁷Steve. "Top 10 Tech Startup Business Opportunities in Saudi Arabia." Life in Saudi Arabia, 6 Nov. 2017, lifeinsaudiArabia.net/blog/2017/11/06/top-10-tech-startup-business-opportunities-in-saudi-arabia/.

4. Glossary

For the purposes of this report, the following terms and acronyms are defined below:

B2C: Business to customer sales model.

Compound Annual Growth Rate (CAGR): Revenue growth expressed per annual periods.

Conversion rate: The rate to convert a user into a paying customer.

Hard services: These include services such as HVAC maintenance, mechanical and electrical, maintenance, building fabric maintenance, plumbing and drainage, deep cleaning, refurbishment, plant maintenance, and lift and escalator maintenance.

In-house: Person directly employed with the client organization provides the services.

Outsourced: Transfer of facility management functions and activities to an external firm.

Serviceable Available Market (SAM): Slices the TAM into the portion of the market that the company is looking to actually target with its specific product/service and within its current capabilities and ambitions.

Serviceable Obtainable Market (SOM): The market share that the startup can realistically target to capture from SAM within the short term, taking into account competition, resources and other external influences.

Soft services: These include cleaning, security, waste disposal, pest control, ground maintenance, and recycling.

Total Available Market (TAM): The available market that the startup can reach, independent of the ability to reach and serve it as of yet i.e. assuming without any competition or internal capacity limitations.

Users: Persons who've downloaded the app



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