

**Strategic Gears**

Management Consultancy

# Implications of adjusting business hours in the retail sector





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# Executive summary



## Executive summary

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The retail sector in the Kingdom employs 1.6 Million people with a job nationalization level of around 25%<sup>1</sup>. The right policy interventions can have the impact of improving this percentage and contribute heavily towards stipulated Vision 2030 and NTP Saudi nationalization targets.

One of the major barriers of nationalization in the retail sector is claimed to be long working hours. Several studies and social dialogues have discussed retail business hours and regulating it to 9 p.m. Also, one must note that currently working hours are not strictly enforced in small businesses.

Although discussions and recommendations have always been in favor of increased regulation; we at Strategic Gears believe that there is merit in assessing an approach that is the absolute opposite (deregulation of business hours along with the strict enforcement of working hours).

Strategic Gears observed other countries' approach to business and working hour regulations; and the insights suggest deregulation of business hours is the global trend. Assessing the impact of such a strategy, we concluded that it can achieve the same desired outcome of reduced business hours, while avoiding the negative side effects.

Furthermore, our researchers looked at the shopping trends by analyzing the traffic into stores around the globe and compared them with Saudi Arabia. It was found that most of the stores in other countries opt to close at night due to low demand although they have deregulated business hours. However, analyzing the customer traffic in Saudi Arabia, it can be observed that customer inflow to stores during morning hours is quite minimal compared to evening hours. Customer inflows peak during the night at around 9pm, which suggests that unlike other countries, consumers in Saudi Arabia have late night shopping habits. Closing of shops during prayer times is one of the contributing factors to the habit.

This calls for decision makers to explore the possibility of deregulating business hours as an alternative.



**Note: In this report, the terms**

- Business hours refer to the opening hours of retail businesses
- Working hours refer to the hours employees are required to work at a retail business

Several sources have arbitrary definitions for business and working hours. In this report, the above mentioned definitions are used.

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1. Sources: SG analysis

# Introduction



## Drivers and barriers of Saudi employment in the retail sector

Low participation of Saudi Nationals in the sector points towards underlying issues. These issues if addressed, could have the potential to reduce the unemployment levels and contribute to Vision 2030 and NTP objectives:

- ▶ One of the major issues is the working hours in the sector. Expats in the sector have less social commitments and can work for longer hours (majority of low-skilled expats, especially in the retail sector, are not allowed by labor law to bring their families). This case is more prominent with Tasattur business, where real owners are expats. Therefore, one potential area which can improve the working environment can be in working and business hours regulations.
- ▶ The government currently restricts the business hours of retail shops from around 9 a.m. to 2 a.m., depending on the municipality (though most shops opt to close by 11 p.m.). Although 24-hour permits are available under certain conditions, they are difficult to obtain by small businesses. The labor law stipulates working hours to be 48 hours per week, but this regulation is not strictly enforced. Consequently, nationals cannot keep up and shy away from accepting jobs in this sector, with the exception of large retailers following more reasonable “shift based” working hours.
- ▶ With Vision 2030 targets to raise female participation rates, working hours in the retail sector gain extra significance. The retail sector is the second largest sector (in terms of employment) and has great potential for nationalization and female employment, whilst keeping in mind the special sensitivity of working hours for females. Furthermore, policy changes can also have the effect of enabling part-time employment by enforcing “shift based” working hours.
- ▶ Decision makers can either regulate the business hours further, making the shops close earlier, or completely deregulate the business hours, allowing the shops to decide their own timings.

The report would be analyzing the global direction for business & working hours and analyzing the prospects of implementing the best practices in the Kingdom.



1. Sources: GaStat 2017 labor force survey



# Analyzing the global practices for business hours



It is helpful to compare the direction which other successful economies have taken regarding their business hour policies. As shown in the table below, most of them have moved towards deregulation of business hours while regulating working hours.

Country	Regulated business hours in the retail sector	Year when the business hours was deregulated	Normal working hours for the general population (hours/ week)	Penalties for working hour violations
Saudi Arabia <sup>1</sup>	Yes	N/A	48	SR 10,000
United Kingdom <sup>2</sup>	No	1994	48	Up to SR 25,000 (variable)
United States <sup>3</sup>	No	1950	40-48	SR 37,500 (imprisonment if repeated)
United Arab Emirates	No	Not published	48	Not published
Singapore <sup>4</sup>	No	Not published	44-48	SR 14,000 or 6-month imprisonment
Germany <sup>5</sup>	No	2006	48	SR 66,000
France <sup>6</sup>	No	Not published	35	Not published
Australia <sup>7</sup>	No	Varied by state	Varied (By industry, function and state)	Not published

## Business hour regulations in other European countries:



### ■ Deregulated:

Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, and Turkey.

### ■ Regulated:

Austria, Belgium, Cyprus, Greece, Luxemburg, Malta, and Netherland.

Furthermore, in the upcoming sections we would be analyzing the typical reasons why these countries decided to regulate and deregulate business hours.

## Reasons for regulating business hours in European countries:

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> In some Christian majority countries, Sunday shopping is restricted.



> In most cases, the wellbeing of people is at the core of these reasons. The wellbeing refers to the increase in leisure time, family time and personal time given to the workers. The state implements these laws to encourage family life rather than shopping and to improve the working conditions in the sector. Some countries' cultural and traditional values also play a part.



> Opening late hours is thought to increase risk of burglaries, mugging and similar criminal activities.

## Case studies on deregulating business hours:

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The reasons for deregulation usually cite more tangible and quantifiable benefits, such as creation of jobs and increased consumer welfare.



**Austria:** While business hours are regulated in Austria, a study<sup>1</sup> analysed the impact of a deregulation on the economy using mathematical modelling and came to the following conclusions:

- ▶ Deregulation would lead to an increase in retail sales. (Increase in consumption due to increased time for consumers to shop).
- ▶ Overall effect on labor will be positive. (In the presence of working hour regulations, increased business hours necessitate the need for hiring more employees)



**Germany:** Business hours were deregulated in most states after a policy change in 2006. A report<sup>2</sup> studied the effects of deregulation on the employment levels in the food retail sector and came to the following conclusions.

- ▶ Lifting restrictions on weekday opening hours increased employment by 0.4 employees per shop.
- ▶ The deregulation affected part-time employment positively without affecting full-time employment.
- ▶ Estimates imply an 8,700 employee increase in the food retailing sector of deregulating states.

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1. Gradus, Raymond. (1996). The economic effects of extending shopping hours. Austria: Journal of Economics.

2. Bossler et al. (2014). The employment effect of deregulating shopping hours: Evidence from German retailing.



**OECD:** The OECD is made up of countries with a mix of deregulated and regulated business hour policies. A report<sup>3</sup> published came to the following conclusions:

- Restricted shopping hours led to an increase in cross-border shopping in Austria. Implying inability of shops to cater to customer demand.
- Deregulation does not lead to 24 / 7 business hours for all shops. Example: Even with weak regulations, the average business hours of shops in Spain is 46 hours/week.
- More customised shopping hours lead to increased consumer satisfaction.
- Sales increase, however, it might lead to a decrease in labor productivity (Important in the context of the Kingdom).

## Key insights

- Deregulated business hours is the direction that most developed economies around the world are implementing.
- The effects of deregulating business hours are unequivocally positive on the employment and the economy in general.
- The positive effects of regulated business hours are subjective and can be achieved through deregulation under certain conditions.

The above-mentioned points strongly suggest deregulation as the way forward. To examine this further, we will be examining the need for deregulating the business hours in the Kingdom.



3. Pilat,D (1997). Regulation and Performance in the Distribution sector.



# Business hours in the Kingdom



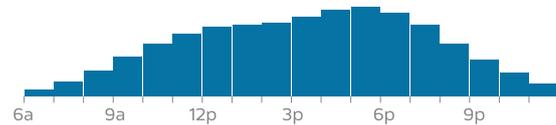
## Need for deregulating business hours in the Kingdom:

To understand the social and economic factors that would be affected by deregulating business hours, we need to explore if the market really requires deregulation. To do so, it is critical to assess the needs of the customers, their habits and what would be the consequences of deregulating business hours.

A team of Strategic Gears researchers analyzed store opening and closing patterns in the retail sector of some countries around the globe including USA, UK, and Singapore. Hypermarket chains based on popularity were chosen as the proxy for the retail sector in each country because it sells essential consumer goods which are purchased on a periodic basis by individuals despite geographies. We analyzed customer inflow into Walmart, Tesco and Cold Storage in USA (New York, California, Texas), UK (Wales, Scotland, England) and Singapore respectively. By analyzing the data, a clear pattern was seen:

### Other Countries – General trend

Most of the countries possess stores which are either open for 24 hours or for certain fixed hours, however most of the stores opt to close at night due to low demand.

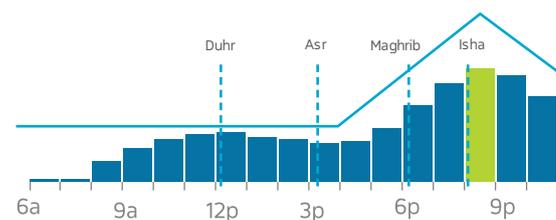


Furthermore, customer inflow to the stores gradually begin during morning hours, peaks during afternoon, and steadily declines across the evening. This suggests that customer habits are tuned towards the day time for shopping.

- ▶ Shopping hours follow a normal curve, with peak timings at around 5 p.m.
- ▶ Shops close around 12 a.m.
- ▶ Because business hours are deregulated, we can conclude that shops close due to low demand.

### Saudi Arabia – General trend

Analyzing customer traffic into grocery chains in Saudi Arabia, it can be observed that customer inflow to the stores during morning hours are quite minimal compared to the evening hours and customer inflows peak during the night at around 9p.m., which suggests that unlike other countries, consumers in Saudi Arabia have late night shopping habits. This can be attributed to several reasons including:



#### Prayer hours and social reasons

Many shoppers prefer to shop after Isha prayer since it means un-interrupted shopping time. Furthermore, it can be observed during weekends and Ramadan time how a large part of the community tends to shop at night.

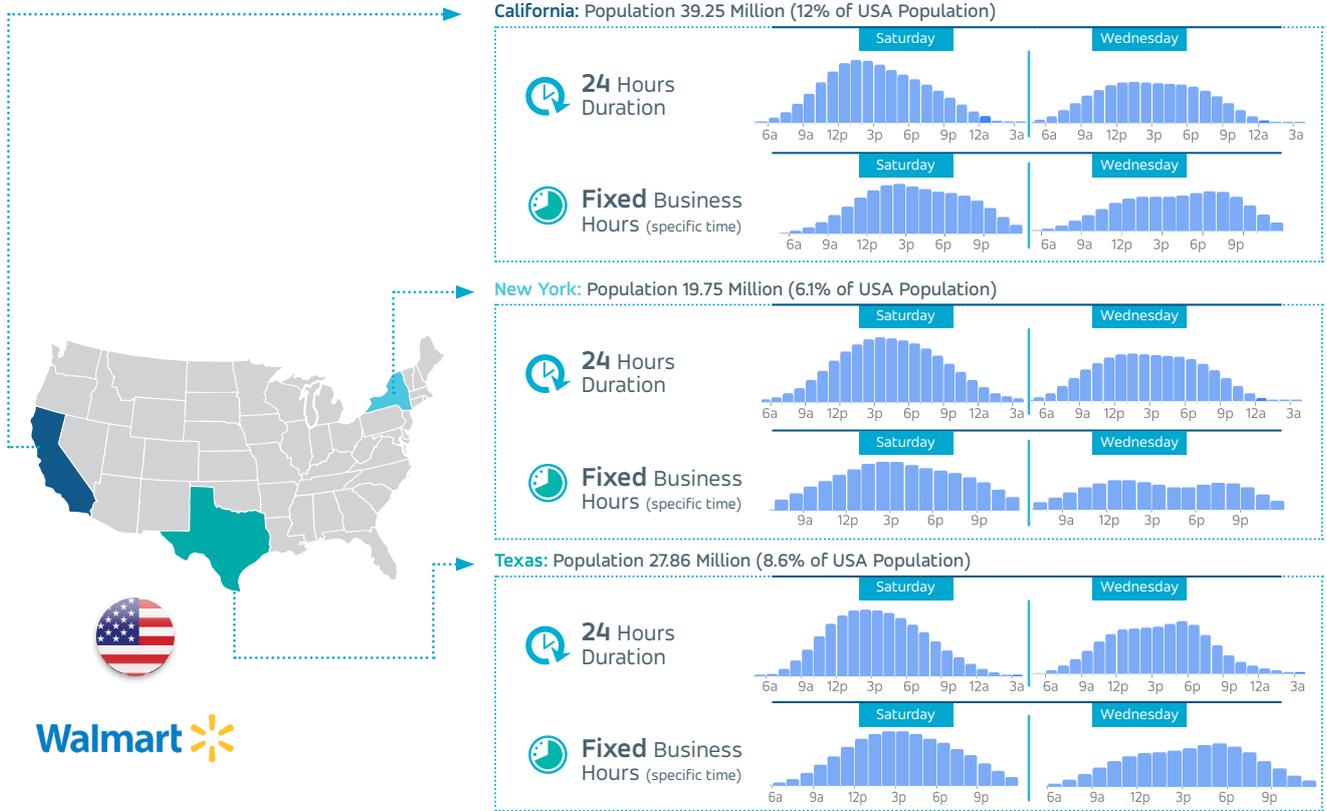
#### Local culture

This cultural orientation tends families to go shopping after work hours.

- ▶ Shopping hours are skewed towards the night, with the peak at 9 p.m.
- ▶ Since business hours are regulated, shops are forced to close while the demand is still high.
- ▶ The consideration of prayer timings further reduces business hours.

## An overview of the observed traffic inflow into stores

The inflow of customers to Walmart was observed to possess a normal trend line across the three states in U.S regardless of fixed or 24/7 operating duration.



The inflow of customers to Tesco was observed to possess a normal trend line across the three major province in UK regardless of fixed or 24/7 operating duration.

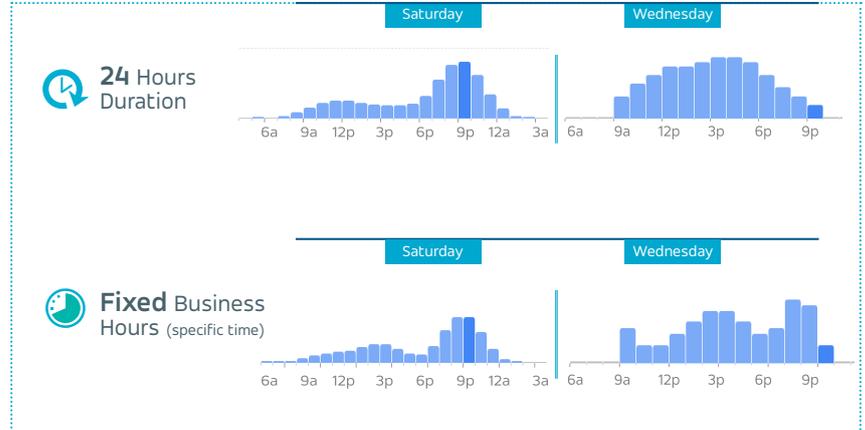


Note: Even though Business hours are deregulated in these countries, some stores choose to open for 24 hours while others do not.

The inflow of customers to Cold Storage was observed to possess a normal trend line across Singapore city regardless of fixed or 24/7 operating duration.



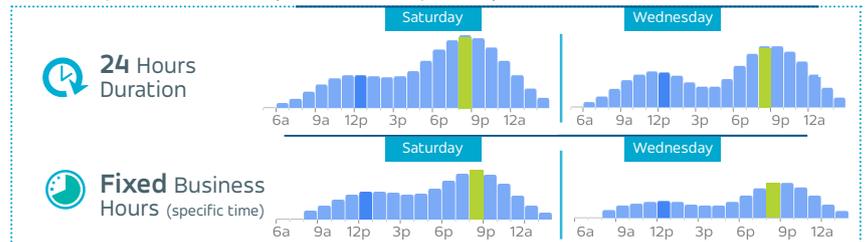
**Singapore City: Population 3.55 Million (63% of Singapore Population)**



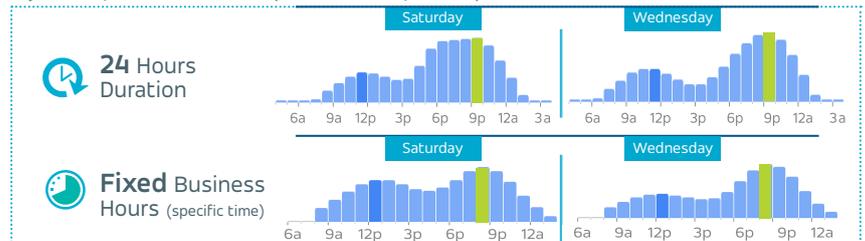
The inflow of customers to Panda in the three major cities of Saudi was observed to possess an anomaly compared to other countries



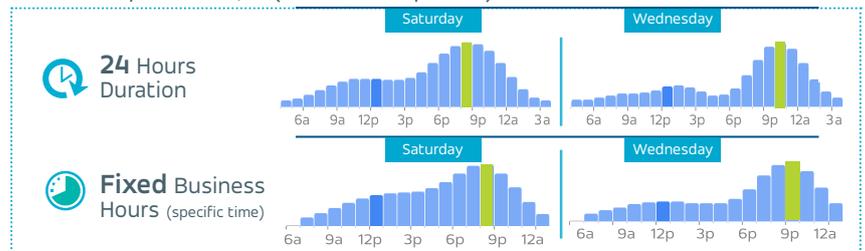
**Jeddah: Population 3.4 Million (10.5% of KSA Population)**



**Riyadh: Population 5.2 Million (16% of KSA Population)**



**Dammam: Population 903,312 (2.8% of KSA Population)**



We observe the customer inflow in KSA peaks at around 9p.m., which helps us to deduce that unlike other countries, Saudi consumers have late night shopping habits and the new regulation of closing retail businesses at 9p.m. will harm the local economy of Saudi Arabia

Disclaimer: The traffic inflow depicted above were retrieved from google maps during December 2017, these are sample representations. Our researchers also examined stores in other states/ provinces in the above mentioned countries and concluded on similar grounds.

## Need for enforcing regulation of working hours in the Kingdom:

The local labor laws in the Kingdom regulate the working hours to be approximately 8-10 hours which is compliant with international laws. Deregulating business hours poses a risk of employers exploiting the workers and forcing them to work for longer hours. When other countries deregulated business hours they already had strict working hour policies. Current policies of working hours in KSA do not effectively penalize business owners in case of abusing working hours regulations.

### Recommended way forward; a preliminary strategic framework

Strategic Gears labor market experts proposes a three-phase framework which can enforce the labor laws and ensure compliance of the laws:

	<b>Prevention</b> (Prevention Policy, Code of ethics and code of conduct, Education and awareness)	<b>Detection</b> (Corruption Risk Management, Detection Practices)	<b>Response</b> (Penalties and legal charges)
<b>Strategy</b>	Preventing employers from having the motive or the opportunity to make employees work more than the legal working hours.	Enable workers to report working hours violations.	Strict penalties and legal stand should be taken against any violations to ensure proper working hours are being implemented.
<b>Implementation Approach</b> (Not exhaustive)	Restriction on number of work visas issuance by business hours. OR Restriction on number of work visas issuance by store size. OR Introduction of free mobility work visas.	Ensure that the workers have an effective channel to report when their working hours are violated. Stricter and periodic inspection of the practices in store should be kept in check by the government.	Cases should be taken by separate government entities and fast tracked, reports which are proven to be true should be heavily penalized by the government and part of the penalty should go to the person(s) who reported the issue. Reports of violations by inspectors should penalize the store owner as well as the workers.

## Benefits of deregulating business hours in the Kingdom:

Having observed a strong influx of the local community in the Kingdom to shop during the night, decision makers can take advantage of consumer habits and reap benefits to the economy by promoting policies that encourage deregulated business hours.

According to a study on employment effects of deregulating shopping hours in Germany, it was concluded that relaxing restrictions on business hours increased employment by **0.4 workers** per shop. This effect was driven by an increase in part-time employment while full-time employment was not affected.

### High-level benefits by deregulating business hours

#### Employment growth

##### a. Increase of Saudi employment in retail sector:



Due to deregulation of business hours and enforcing working hours, Saudi participation rates in the sector can be increased by more “shift-based” jobs. Our industry experts estimate approximately 280,000+ jobs, can be created through implementation of such regulations.

##### b. Part-time employment:



Part-time employment growth rate for Saudi Arabia from 2016-2017 was approximately **-1.5%**. This can be offset by deregulating business hours which would enable more youth and females to be a part of the economy.

##### c. Woman unemployment:



Over **54%** of the unemployed in the country are women. Further, deregulation of opening hours would enable some women with time constraints to work while maintaining their other responsibilities.

#### Sector GDP growth

##### a. Private sector & SME growth:



The SMEs and private sector can immensely benefit from such policies which would increase revenues to a extent, especially in some retail sub-sectors.

##### b. Increased household spending:



The recent regulation of introducing entertainment facilities in the Kingdom coupled with late night shopping habits, presents an opportunity for retail businesses to increase their sales.

# Conclusion



## Conclusion

We believe more benefits can be reaped by deregulating business hours and enforcing working hours. This implies leaving the decision of business hours to retail shops based on their individual potential, while monitoring the maximum number of hours a retail employee can work, to allow fair chance for Saudi employment.

In theory, proper implementation of such a dual policy would lead to:

- Better business results driven by increased business hours.
- Better working conditions driven by regulated working hours, encouraging shifts, part-time jobs, and more suited working hours for females.
- Better Saudi employment results, driven by fair competition with expat workers in the sector.

Instead of further regulating  
business hours (9 p.m. closing)



Deregulating business hours  
can reap more benefits



Deregulating business hours is the most popular global direction in most successful economies. Following the global direction of deregulation would lead to faster realization of the Vision 2030 and enable the core components of the Vision by lowering the rate of unemployment, increasing SME & private sector contribution to GDP, increasing women's participation in the workforce and stimulating household spending.

It should be noted that deregulation of business hours without strict enforcement of working hours could lead to deteriorated working conditions and increased exploitation of workers.

Thus deregulating business hours and enforcing working hours regulations can be one small step in the short term but a giant leap which can bring promising results in the long term. Strategic Gears believes that the decision makers should consider venturing into this idea and explore the possibilities of pursuing the direction.





**Strategic Gears**  
Management Consultancy

## About Strategic Gears:

Strategic Gears is a Management Consultancy based in Saudi Arabia, with presence in Riyadh and Jeddah, serving clients across the country. Strategic Gears' clients include the biggest public and private sector organizations, including a number of ministries, authorities, financial institutions, and companies.

The company utilizes its top notch local consultants, and global network of experts to offer strategic solutions in the fields of public policy, analytics, product development, and strategic marketing, and have a proven track record with multiple clients in each.

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