Summary

AEC is the Kingdom’s recognized leader in Localization. We define Localization as: a long term, sustained national program in which all stakeholders in the Kingdom participate in the transfer of technology from external, outside-the-Kingdom sources to a strategic and cost effective internalizing of that technology.

AEC regards this technology transfer as a National imperative. Virtually all sectors of industry and manufacturing throughout the Saudi Arabia must embrace and effectively deploy the best technology if Saudi Arabia is to compete successfully in global markets.

The localization process has thus far been championed by the offset program with an admirable support from the end customers’ community, who are yet to take full ownership of this process, which benefits both government and private projects alike.

The short-term challenges associated with the localization process soon emerge as long term successes for all stakeholders which are in turn raise the level of confidence, particularly in the customer community, in this process. Localization of capabilities is attained through leadership commitment and dedication to this process from all stakeholders, particularly the end-customer who has the ultimate power to drive the process in the right direction, and secure the buy in from the foreign partners.

The long-term success can be reflected in national economic expansion and support to empower the emerging talented workforce by providing promising opportunities. Stakeholders support in technological advancements is vital in nurturing long-term success.

A strictly enforced offset requirement of 35% could help create up to 84,000 high-skill jobs in Saudi Arabia by 2017

Potential for leveraging KSA spending

- The largest spender in the GCC, Saudi Arabia, is planning to an estimated military expenditure of USD 296 Bn between 2013 and 2017
- Roughly 70% of this spending is non-capital spending, such as personnel costs
- However the remaining 30% capital spending still adds up to a significant USD 90 Bn
- Depending on the minimum offset threshold and offset %, up to USD 31 Bn should be sourced domestically and reinvested into the Saudi economy
AEC and LOCALIZATION

Proven Business Model for Localization
Considering its contract electronics manufacturing and in-house R&D capabilities, built over a period of 27 years, with all processes in place to get up and running within a short space of time, AEC has managed to develop a clear business model for localization and has successfully managed to localize the manufacture and repair of many products and solutions with remarkable benefits to the end users.

To overcome OEM’s reluctance to pass on invaluable Intellectual Property Right (IPR) and know-how, and break up their supply chain, AEC strongly believes that end customers must leverage their buying power to incentive OEM’s to localize with long term local support, and this could be part of the RFQ’s and selection criteria.

Leadership in Saudization
By all definition, AEC has thus far demonstrated leadership in the Saudization initiative through achieving more than 75% Saudization, compared to the industry average of less than 15%. In pursuit of Saudization.

AEC has developed a simple and effective process for selection, training and retaining Saudi employees. It empowers its people by promoting responsibility and accountability.
Serving the Local Needs

Since its inception, AEC has been working in close collaboration with its client’s in the Military and Telecom industries resulting in joint team efforts in projects for Ministry of Defence & Aviation (MODA), Saudi Telecommunications Co. (STC), etc. These projects have also led to the development of many proprietary solutions for the sectors. Likewise, AEC’s close coordination with Saudi Electricity Co. (SEC) in the Industrial sector has provided AEC with a springboard to develop, and localize, products and solutions.

Core Competencies

Electronics Manufacture
Electronics Repairs
Research & Development
System Integration
Program & Project Management

1,017 Finished Projects
100% Projects Completion
91.3% On-Time Delivery

STAKEHOLDERS ENGAGEMENT

DELIVERY OF EXCELLENCE
PREFERRED SOLUTIONS & TANGIBLE BENEFITS
COST EFFECTIVENESS & ON-TIME DELIVERY
OPTIMAL RESOURCE ALLOCATION
STANDARDIZED METHODOLOGY & PROCESSES

STRAategic ALIGNMENT
PROJECTS FEASIBILITY
PROJECTS CONTROL
RIGHT TEAMS
P3O MATURITY LEVELS

AIM FRAMEWORK
AIM PROCESS
AIM PLUS
P3O SKILLS
AIM PULSE
INFORMATION MANAGEMENT

1,017 FINISHED PROJECTS
100% PROJECTS COMPLETION
91.3% ON-TIME DELIVERY
AEC PERSPECTIVES on LOCALIZATION

Strategic Relevance
The prime objective of localization is to build local capabilities whilst reducing dependencies on foreign sources. This can be established through local research and development channels and/or Technology transfer and partnering with credible international companies. Other important benefits include:

- Economic diversification (reduced reliance on oil / gas / petrochemicals)
- Technology transfer
- National manpower development and job creation for Saudi national
- Strategic self-sufficiency

The localization process is somewhat complex and requires leadership and commitment. When technology transfer is involved, an agreement with foreign partners is required. It involves the development of a highly skilled multi-disciplinary workforce which takes a long period of time. Most importantly it requires up-front and significant investment. Consequently, the program is commercially characterized as high risk with a long payback period. Therefore, the role of government is critical to success.
Operational Relevance

Consolidated support through Local Industries can help reduce overall project life cost through its products and services.

Local industry can provide improved customer support with shorter lead-time in reducing the cost of repair and spares thus minimizing reliance on OEM’s for support in times of crisis.

Local Industry must, however, recognize the apprehensions of technology partners who may be expected to re-shape their supply chain. In addition, foreign government restrictions obstruct the transfer certain technologies.

In spite of the hurdles, there are several benefits of establishing localization. It directly and beneficially impacts the national infrastructure, operational readiness and capability. The major benefits can be summarized as:

- Shorter response time
- Shorter turnaround time (TAT) for all assets
- Improved readiness
- Reduction in overall cost of ownership and life time cost
- In kingdom (Local) quality service and technical support by highly trained national workforce
- Strategic Value: having the know-how and the capabilities reside locally is of an essential value considering the need of those capabilities during critical times.
Project Lifecycle Cost with/without Localization

Figure 1 illustrates the Project lifecycle cost with and without acquaintance of offset. Although the initial cost is most apparent to decision makers, it only represents a small percentage of the total lifecycle cost, which is chiefly dominated by the operation and support cost.
Key Stakeholders

Although the Saudi localization process is driven by government, many other stakeholders exist. The following groups play a major role in establishing localizations:

1. Saudi Government Officials, legislators and policy makers
2. The Saudi Offset Program
3. Government Procurement agencies (e.g. across all ministries)
4. Semi Government Companies
5. Other government organizations such as Saudi Arabian General Investment Authority (SAGIA), National Industrial Cluster Program (NICP), etc.
6. Academic institutions such as KACST, KAUST
7. Saudi Economic Offset Companies
8. Foreign OEMs – for Technology Transfer

Key Benefits

As a result of this experience, it has been possible to identify the key benefits of Localization in Saudi Arabia. Those listed below are perhaps, the most influential ones.

- Strategic self-sufficiency in vital sectors.
- The economy can be increasingly diversified
- Disseminating, sharing and deploying best-in-breed technology. “Success breeds success”.
- Acceleration in Saudization.
- Improved levels of customer support
- Shorter response times
- Reduced turnaround times.
- Gradual swing from imports to exports.
- Lower costs for servicing, repairs and spares.
- More effective management of inventory.
- Lower project life costs.
- Reduced costs of ownership.
- Increased competitiveness.
- Ability to compete in technology intensive international markets.
Key Thrusts

- Establish a national strategy for localization – possibly headed by the Offset program. This strategy must be in full alignment, if not an integral part of, the Saudi National Industrial Strategy.
- The Ministry of Planning can create more economic value from project investments by aligning with national development goals. This could be particularly important in attracting investment to industries that are new in the Kingdom.
- Alignment between all National Industrial Strategy, Government Ministries, and all other stakeholders involved in the process of localizations.
- Setting-up a Government-led ‘High-Tech Venture Capital Fund’ using available national capital (such as Sovereign Fund and GOSI Fund) with the aim of accessing or transferring strategically-relevant technologies to the Kingdom.
- Develop strategies to engage the private sectors and other stakeholders in the process of localization. This must be supported by financial incentives to qualified local companies when a high initial capital investment is required to create new products or in support of localization. Any investment needs to be supported by a financially-viable business case.