

Consumer Packaged Goods Practice

# How to win in the Gulf's dynamic consumer and retail sectors

New patterns of consumer demand are emerging in the Middle East. To align with these shifts and remain competitive, consumer companies can focus on two priority areas: expanding into new adjacencies and developing personalized offerings.

*by Abdellah Iftahy, Jhonny Jha, Stephanie Khairallah, and Mona Lambert*



**In this age of uncertainty**, when mounting headwinds threaten to slow down global economic growth, a new type of consumer is emerging in the Gulf region: one who is more price sensitive, digitally savvy, and socially responsible. These shifts in consumer behavior started during the peak pandemic months, as our latest Middle East Consumer Sentiment Survey shows, and are expected to continue driving spending decisions for the remainder of 2022 and beyond.

These changes should serve as a wake-up call to consumer companies in the Gulf region. Prior to the pandemic, retailers and consumer-packaged-goods (CPG) manufacturers in the region were riding a growth wave fueled by a strong economy, robust tourism, and ample government infrastructure spending, so there was little impetus to take risks and experiment with new products and services. In addition, because well-established Gulf companies enjoyed brand loyalty from their customer base, they didn't feel the need to make big investments in advertising and marketing. Gulf consumer companies have therefore been slower than their US or European counterparts to adapt to transformative trends like digitization and sustainability.

But the landscape has changed. To attract and retain consumers in this dynamic environment, retailers and CPG manufacturers would do well to refocus their strategic priorities and put consumer data at the heart of every business decision. We believe this requires a two-pronged approach. First, the Gulf consumer industry can expand into new products and businesses that are better aligned with evolving customer needs. Second, incumbent retailers and CPG manufacturers should develop personalized marketing initiatives. Gulf companies that choose not to pursue these new strategic priorities likely won't remain competitive for long.

## The new Gulf consumer

In our Middle East Consumer Sentiment Survey, conducted in November 2021, we asked more

than 2,200 consumers in two of the largest Gulf economies—the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE)—about their financial sentiment and spending habits. The following are three of the most striking characteristics of today's Gulf consumers that emerged from their responses:

1. **Price sensitive.** Economic uncertainty, job insecurity, and a protracted pandemic have made consumers more price conscious. More than 50 percent of consumers in both the UAE and KSA are cutting back on spending. Consumers in both countries are actively trading down and looking for cheaper grocery options that offer similar quality, with the change being the most pronounced in the lower-income groups. For example, among UAE survey respondents in the low-income tier—comprising people earning less than 7,000 AED (\$1,905) annually—27 percent opted for lower-priced goods in 2021, up from 13 percent in 2020 (Exhibit 1).
2. **Digital first.** A key growth tailwind in the Gulf consumer sector is the exponential increase in e-commerce adoption, driven by a young population that is earning more and spending more time on the internet. Incumbent retailers are competing with a growing number of digital market entrants, including super apps, social media players, aggregators, and global e-marketplaces. The UAE retail mobile-commerce market is projected to grow at 19 percent CAGR between 2020 and 2025. The outlook for UAE's overall e-commerce retail market is equally strong, with expectations that it could reach \$8 billion by 2025.<sup>1</sup>

The digitization trend, coupled with the ease of comparing prices online, has increased online shopping activity across categories. Our survey showed that the number of people in the UAE and KSA who shop online on a weekly basis has doubled in two years. Moreover, 42 percent of

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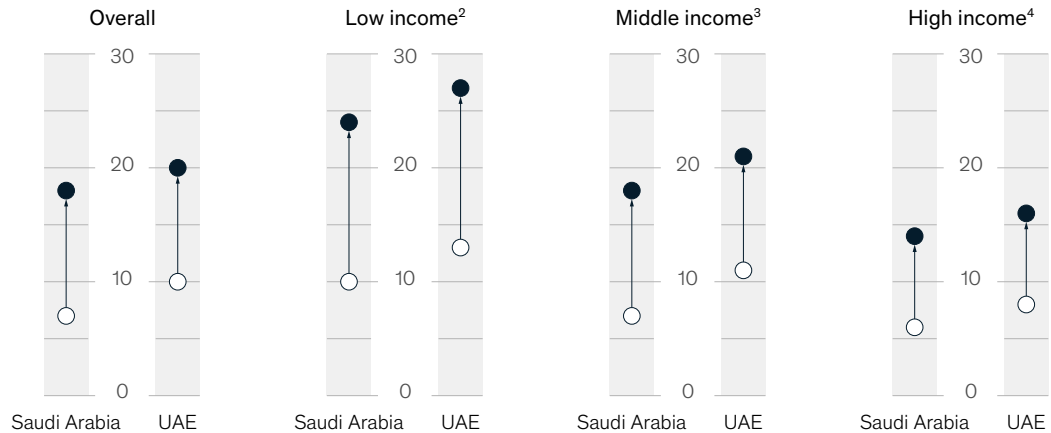
<sup>1</sup> "Value of UAE retail e-commerce market hit record \$3.9 billion in 2020: Analysis," Government of Dubai, June 23, 2021.

Exhibit 1

## Consumers in Saudi Arabia and the United Arab Emirates are getting more price sensitive, especially those in the low-income tier.

Share of respondents reporting trading down in the last 12 months,<sup>1</sup> %

○ 2019 ● 2021



<sup>1</sup>Among consumers who changed their buying behavior. Data as of November 2021.

<sup>2</sup>Low income for Saudi Arabia = ≤9,000 SAR (\$2,397); UAE = ≤7,000 AED (\$1,905).

<sup>3</sup>Middle income for Saudi Arabia = 9,001–12,500 SAR (\$2,397–\$3,329); UAE = 7,000–15,000 AED (\$1,905–\$4,083).

<sup>4</sup>High income for Saudi Arabia = ≥12,501 SAR; UAE = ≥15,001 AED.

Source: McKinsey 2020 and 2022 Middle East Consumer Sentiment Surveys

these shoppers buy groceries online at least once a week (Exhibit 2). Their online shopping basket is highly diverse, consisting of not just groceries but also household cleaning products, toys, baby supplies, consumer electronics, footwear, and apparel. Traditional retailers that haven't yet built a robust online presence are losing out on this increasingly important revenue growth opportunity.

3. **Socially conscious.** Despite reductions in spending, Gulf consumers are also becoming more sophisticated in their shopping habits. Health, purpose, and social responsibility are now the defining themes influencing their buying decisions, mirroring the global trend of growing consumer concern about sustainability and well-being (Exhibit 3). Conscious eating is on the rise; around 51 percent of UAE-based consumers told us they read nutrition labels, and 48 percent said they buy locally sourced food. Millennial

consumers in particular say they prefer brands that use sustainable packaging.

### New consumer behaviors, new growth imperatives

Consumer preferences are dynamically evolving, putting the onus on omnichannel retailers and CPG manufacturers to keep up with these behavioral shifts. While some of these trends—the increased focus on health, nutrition, and purpose, for example—have been in motion for a few years, the price sensitivity among lower-income households started accelerating only after the pandemic.

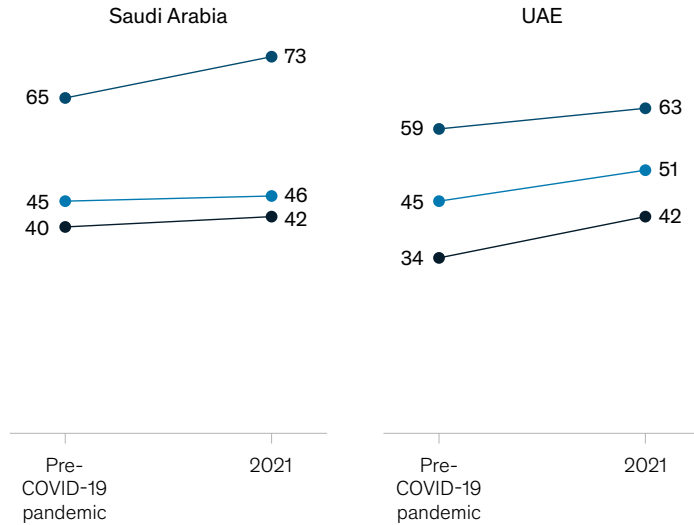
In such an environment, the most valuable growth driver for Gulf consumer companies today is consumer data. Digital awareness among Gulf consumer companies has grown in recent years, but the execution has remained slow due to lack of digital preparedness in their IT infrastructure

Exhibit 2

**Online shopping accelerated in both Saudi Arabia and the United Arab Emirates during peak pandemic months.**

**Share of respondents reporting shopping online,<sup>1</sup> by frequency, %**

- Weekly
- 1–2 times a month
- A few times a year



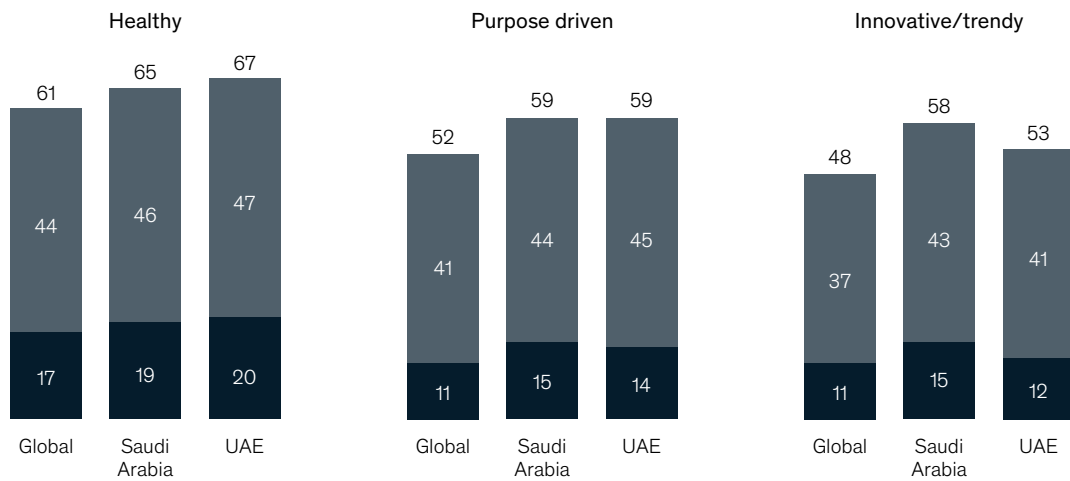
<sup>1</sup>Online refers to the net of online pure-play retailers as well as online aggregators.  
Source: McKinsey 2022 Middle East Consumer Sentiment Survey

Exhibit 3

**Like their global peers, Gulf consumers are increasingly opting to buy—and pay more for—healthy products.**

**Share of respondents willing to pay more for products, by value type, %**

- Willing to pay a lot more (>10%)
- Willing to pay a bit more (1–10%)



Source: McKinsey 2022 Middle East Consumer Sentiment Survey

as well as overall culture and talent capabilities. According to a 2019 McKinsey survey on the digital maturity among Gulf consumer companies' family businesses, for example, 73 percent of the respondents said they collected and tracked data. However, there have been issues with access to and accuracy of data, with 50 percent of the surveyed respondents claiming their data had significant inaccuracies.

Against this backdrop, we believe there is an opportunity for companies to position themselves for success by pursuing two paths in parallel, both of which rely heavily on consumer data: expanding into adjacencies and new businesses; and using personalization to drive customer value.

### **Expand into adjacencies and new businesses**

Gulf retailers have typically pursued business expansions through inorganic strategies like M&A or joint ventures. In addition to these strategies, business building is increasingly being considered by a few innovative retailers as a viable approach to capture new opportunities, particularly in the digital space.

Business building rose to the top of the global corporate agenda during the COVID-19 pandemic and continues to drive interest today. We define business building as the creation of new products, services, or business models for which a company does not have an existing footprint. According to a McKinsey survey on business building published in December 2020, 52 percent of the surveyed organizations highlighted new business building as a top-three strategic priority.

Business building can help companies diversify revenues, achieve scale, and become more resilient, especially during a crisis. According to the survey, 74 percent of global companies that chose business building as their main strategy grew at rates above their industry average in 2020. Business builders

are also able to amplify returns and outperform their peers. Companies that built four or more businesses, for example, are twice as likely to earn an average ROI of five times their investment.

What's more, the Middle East is ripe for business building. Retailers and CPG manufacturers stand to benefit from the growing availability of long-term financing, both from Gulf sovereign-wealth funds and overseas investors. Governments across the region are also making a concerted push to create more jobs and expand digitization initiatives.

Developing new businesses enables companies to benefit from evolving consumption and macro trends shaping the global economy. The growing consumer focus on sustainability, for instance, has increased the demand for plant-based products. In the Middle East and Africa combined, the plant-based meat and dairy products market was valued at \$240 million in 2020 and is projected to achieve 6 percent CAGR between 2021 and 2026.<sup>2</sup> Domestic brands that have launched vegan meat products include the Sharjah-based Healthy Farm,<sup>3</sup> and the UAE-based Halal food brand Al Islami.<sup>4</sup>

Take the example of a leading Gulf-based retailer that used a business building approach to create a new digital advertising business in 2021, with the goal of creating an additional source of revenue for its e-commerce business and improving overall profitability. The digital advertising market in the Gulf is growing fast and, in the UAE alone, is forecast to reach \$1.5 billion by 2025. But this was a novel move; no other omnichannel retailer in the Middle East ran a digital advertising business at that point. The retailer hired digital talent with the skill sets required to run an advertising business. The strategy paid off quickly: the new business is on track to generate \$100 million in annual revenue within five years. And thanks to its new capabilities in digital marketing, the retailer's own return on

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<sup>2</sup> *Middle-east and Africa plant-based meat and dairy products market: Growth, trends, COVID-19 impact, and forecasts (2022 - 2027)*, Mordor Intelligence, 2022.

<sup>3</sup> "Healthy Farm plant protein burgers awarded 'Most Innovative Halal Product' at Gulf Food Innovation Awards," Global Food Industries, accessed August 2022.

<sup>4</sup> "Al Islami Foods bagged the paramount grade, A Gold from Dubai Municipality Health and Safety Department," Al Islami Foods press release, July 2022.

advertising spend for its e-commerce business doubled in 2021.

For all businesses and start-ups looking to achieve similar success with their new business building initiatives, the key is to assess the market landscape and focus on high-value gaps. In Saudi Arabia, for example, food and beverage distribution is highly fragmented. As such, consolidation and aggregation could generate efficiencies in the sector and value for both business builders and investors.

#### **Pursuing personalized marketing**

While the above approach will generate additional revenue streams, data-enabled personalization will help in sustaining the growth momentum. Personalization uses customer “triggers” to optimize the timing, content, offer, and design of every customer experience. Data on a customer’s demographic profile, purchase history, and activity patterns, for example, can be used to develop differentiated marketing and communication strategies. A marketing campaign for a high-frequency customer would focus on retention, whereas for the less active customer base, the primary objective would be to increase their shopping frequency.

Retailers and CPG manufacturers in the Gulf region can adopt personalization to win consumers

and keep them loyal in today’s competitive landscape. According to McKinsey’s *Next in Personalization 2021 Report*, 71 percent of the US consumers surveyed expected companies to deliver personalized interactions. Personalization also drives outperformance. According to the survey, personalization could typically drive a 10 to 15 percent revenue lift for companies, on average.

Finally, companies can use personalization to develop a pricing, brand, and marketing strategy that caters to different consumer segments more strategically. For example, they can spend a bigger proportion of their marketing budget on custom discount bundles for low-income households that are exhibiting the biggest changes in consumption behavior.

A case in point is a Middle Eastern retailer’s personalization-driven marketing campaign strategy launched in 2021. To maintain its revenue growth during the pandemic-triggered slowdown, the retailer set up a dedicated team to drive personalized marketing efforts. The team tailored every communication campaign, sending millions of personalized messages on a weekly basis to the retailer’s customer base and running constant tests to continuously refine the personalization approach. For example, impulse shoppers who typically come to the store on Mondays were sent

**Companies can use personalization to develop a pricing, brand, and marketing strategy that caters to different consumer segments more strategically.**

email and SMS campaigns with offers on their favorite ready-to-eat meals to encourage them to increase the frequency of their visits. Shoppers who only bought fresh produce and healthy items, meanwhile, received emails with recipes and suggested premade carts with the best produce of the day. On average, this personalized marketing campaign resulted in an 8 to 10 percent revenue uplift versus mass campaigns targeted at similar shoppers or no campaigns at all.

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It is easy to adopt a wait-and-see approach in times of uncertainty. But given how fast consumer behaviors and expectations are changing, doing nothing can be riskier than making big moves. Companies that act now to develop capabilities to grow into new adjacencies, business building, and personalization will be well positioned to remain resilient and productive, even in the face of a potential economic downturn.

**Abdellah Iftahy** is a partner in McKinsey's Dubai office, where **Jhonny Jha** is an associate partner and **Stephanie Khairallah** and **Mona Lambert** are consultants.

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