Succeeding in the MENA Region with Consumer Products
A Market-Focused, Consumer-Driven Approach to Sustained Profitability
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Economic indicators in the Middle East and North Africa (MENA)—including healthy growth in GDP, per capita income, and consumption, as well as high consumer confidence—are attracting the attention of consumer goods companies from around the world. But it will take more than superior products to generate share and profit in this attractive regional market.

Economic conditions, consumer behaviors, and retail infrastructure vary widely among the MENA nations. The cost of doing business is rising and margins are under pressure as more and more global multinationals enter the market. To earn share in the MENA region, consumer companies will need to tailor their approaches carefully by market, channel, and consumer segment. More important, to achieve sustained profitability, they will have to cement consumers’ loyalty by adopting a holistic approach to consumer engagement and working closely with local distributors to deliver a complete and differentiated brand experience.
KEY HIGHLIGHTS

- Consumer products companies can find several fundamentally attractive elements in the MENA region’s outlook: projected GDP growth of 5 percent per year from 2010 to 2014, a marked rise in consumer confidence, and favorable age and income demographics.

- Successful consumer products strategies in the MENA region must account for shifting sources of growth, the unequal pace of economic recovery, the region’s highly heterogeneous markets, and the rising cost of competing within it.

- The basis for consumer product success in the MENA region is the early identification of emerging demand and the development of superior consumer insights aimed at informing and improving product development and shopper marketing.

- The basics are not enough, however: For sustained profitability and market leadership in the region, companies must create consumer loyalty by delivering a consistent brand experience at every stage of the consumer life cycle via powerful local engagement models.

THE PROMISE AND CHALLENGE OF MENA MARKETS

The economies and consumer markets of the MENA nations have weathered the financial crisis and recession and emerged in good trim. Currently, the region’s growing GDP and per capita income and rising consumer consumption and confidence are beckoning the world’s leading consumer products companies.

Most international brands are already present in the Middle East and North Africa. Companies that are already well established in the region, with large regional offices and a full brand assortment in place—such as Unilever Group, LG Electronics, and Procter & Gamble—are intent on growing their share. Other companies are early in the process of building their market positions and still fully reliant on local distributors for the whole spectrum of local sales and marketing implementation, but they are no less interested in the region.

No matter how consumer companies are currently positioned in the MENA region, they are discovering that earning sustainable profits is an increasingly complex proposition. MENA markets are challenging: Competition is on the rise, a growing number of private labels and economically priced durables are appearing, and the local consumer markets are highly diverse. As a result, consumer companies will have to revamp and strengthen their operating models, establish a direct presence and collaborate more effectively with distributors in local markets, and employ advanced marketing and analytical capabilities.
THE ECONOMIC OUTLOOK FOR THE MENA REGION

Real GDP in the MENA region is recovering quickly from the recession. After annual growth of just 1 percent in 2008 and 2009, the region’s GDP is forecasted to grow at a healthy average of 5 percent per year from 2010 to 2014. This is quite robust compared with growth rate forecasts ranging from 1 to 2.5 percent in the United States and western Europe.

Consumer goods companies should also note two trends that suggest the growth of the consumer markets in the Middle East and North Africa will be sustained over the long term. First, the estimated population growth rate in the MENA region over the next five years is the second highest in world, with only sub-Saharan Africa projected to grow at a faster rate. In addition, a wide range of demographic trends suggests a burgeoning regional market for consumer products: a growing proportion of young adults, an expanding middle class with higher disposable incomes, urbanization, and lifestyle changes.

Second, the MENA region’s consumer confidence scores, a significant indicator of spending, are high overall (see Exhibit 1). The consumer confidence scores in the second half of 2009 ranged between 55 percent and 89 percent, a major improvement over scores of between 30 percent and 71 percent in the first half of the year.

Exhibit 1
Consumer Confidence in the Region Rose in 2009

CONSUMER CONFIDENCE SCORES IN SELECTED MENA MARKETS

<table>
<thead>
<tr>
<th>Country</th>
<th>First half of 2009</th>
<th>Second half of 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>32</td>
<td>60</td>
</tr>
<tr>
<td>Kuwait</td>
<td>50</td>
<td>71</td>
</tr>
<tr>
<td>Lebanon</td>
<td>64</td>
<td>55</td>
</tr>
<tr>
<td>Qatar</td>
<td>71</td>
<td>89</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>67</td>
<td>83</td>
</tr>
<tr>
<td>UAE</td>
<td>30</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: MasterCard Worldwide Index of Consumer Confidence; Booz & Company analysis
The projected growth in the MENA region’s consumer market overall makes it a region that consumer companies cannot afford to ignore. But any attractive consumer market will quickly draw a host of competitors in a global economy, and this region in particular is a highly heterogeneous market with complexities that make it difficult to earn consumer loyalty and profitable market share. These complexities include an unequal pace of economic recovery among the region’s countries, rapidly emerging new sources of growth, variations in the recession’s impact on consumer behavior, a highly heterogeneous consumer and retail environment, and high cost of doing business.

Unequal pace of economic recovery: Although all of the MENA nations are expected to participate in the region’s economic recovery, their pace will vary (see Exhibit 2). This creates uncertainty and risk for consumer companies and a need for geographic

Exhibit 2
Economic Growth for MENA Nations Is Projected to Vary Significantly

ANNUAL PERCENTAGE CHANGE IN GDP GROWTH (2009–2010)

Source: International Monetary Fund, April 2010; Booz & Company analysis
The unequal nature of the recovery is mainly due to fundamental differences in the distribution of income, underlying economic structures, and degree of exposure to global trade and capital markets.

Rapidly emerging new sources of growth: The growth dynamics within MENA nations are complex and often evolve very quickly. These circumstances require consumer companies to develop the foresight, vigilance, and capabilities necessary to react quickly and effectively to the ebb and flow of demand among specific sectors and demographics within the region as a whole and its individual nations.

Large MENA markets, such as Saudi Arabia and the United Arab Emirates (UAE), might be facing consumer saturation in some segments, but opportunities still exist in specific sectors within those markets, ensuring they remain appealing for some companies. For example, business-to-business opportunities arising from large government-driven construction projects are a significant source of growth for consumer companies in the white goods sector. In Saudi Arabia, the government is using its large, oil-driven surpluses to fund the construction of schools, housing, and hospitals at the unprecedented level of US$290 billion in 2010, which will drive demand for durable goods. In the UAE, the booming tourist trade has created opportunities for growth in HORECA (hotels, restaurants, and cafés) channels for food and beverage brands.

Another source of above-average growth is the pent-up demand for

The growth dynamics within MENA nations are complex and often evolve very quickly.
consumer products in markets that have not previously been targeted by consumer companies, especially those with favorable age and income demographics. For instance, Egypt—with its youthful population, rapidly growing middle class, and relatively healthy macroeconomic profile—will likely become a continuing center of above-average consumer demand (see Exhibit 3). Significant consumer markets are also likely to develop in nations that are undertaking large-scale market liberalizations, such as Libya.

Variations in the recession’s impact on consumer behavior: The impact of the recession in the MENA region has been more sector-specific than in other regions. As a result, there are major differences in the behaviors of consumers within each market in terms of economic well being, confidence levels, willingness to spend, and price sensitivity. In the UAE, for instance, employees in sectors such as finance, construction, and real estate continue to experience large reductions in salaries and high unemployment levels. Further, there are significant salary disparities between local employees, Westerners, and Arab and Asian expats that are

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**Exhibit 3**
The Number of High-income Households in Egypt Is Growing

<table>
<thead>
<tr>
<th>Annual Disposable Income</th>
<th>2005</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$150K</td>
<td>0.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td>$100K-$150K</td>
<td>0.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>$65K-$100K</td>
<td>0.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td>$35K-$65K</td>
<td>0.5%</td>
<td>2%</td>
</tr>
<tr>
<td>$10K-$35K</td>
<td>4.4%</td>
<td>35%</td>
</tr>
<tr>
<td>&lt;$10K</td>
<td>94.7%</td>
<td>61.5%</td>
</tr>
</tbody>
</table>

Note: Income is in US dollars.
Source: Euromonitor International; Booz & Company analysis
also partly due to the differing levels of exposure to the recession within sectors. This makes it more difficult for consumer companies to effectively target their marketing and promotions at major consumer segments.

A highly heterogeneous consumer and retail environment: The MENA region is one of the most heterogeneous consumer environments in the world, making it difficult for marketers to effectively and profitably address the needs and expectations of different consumer segments. Consumer cultures and income levels vary greatly among the region’s countries. In addition, expat populations are particularly diverse. For instance, virtually all of the Southeast Asian and North African cultures are represented in varying degrees in the Gulf nations, but unlike the large ethnic populations in nations such as the United States, they often do not have the economic power or critical mass to justify highly targeted offerings.

Local retail environments are equally diverse, and operating effectively within them is crucial to brand growth. MENA markets often have a large number of highly fragmented small and independent retail stores, which are complex and cumbersome to work with, yet collectively too big to ignore. Country specificities also exist. For example, Kuwait’s co-ops represent a significant channel that generally operates differently (i.e., with a less-structured buying process) than the modern trade model. Additionally, the modern trade model is itself changing, spurred, for instance, by the emergence of many new malls in the MENA region. Thus, companies must adopt a country-tailored retail strategy to support brand development.

High cost of doing business: The complexity inherent in MENA markets is compounded by margin pressures. One source of pressure is product based: There is a rising number of low-cost offerings, such as Chinese-made appliances and consumer electronics. Private-label grocery offerings are also on the rise, including food staples (such as pasta and cereals) and grocery non-food categories (such as cleaning supplies and paper products). However, these offerings have not yet achieved the same quality levels that they have in Western markets.

Costs are also increasing due to the need for greater investment in retail and marketing, as well as the need to build the capabilities required to grow companies’ MENA revenues and profits. These include:

- Brand and marketing strategies that are tailored to the MENA region and effectively address its complexities in terms of value and culture
- A cohesive strategy that governs permanent and promotional investments in retail and achieves the proper balance between coverage and return on investment
- Stronger functions, capabilities, and staffing in regional headquarters
- Revamped operations and more collaborative distribution partnerships in key local markets.
A FOUNDATION FOR CONSUMER GOODS SUCCESS IN THE MENA REGION

Although the MENA region’s economic fundamentals should make it relatively easy for consumer goods companies to create top-line growth, sustained profitability will be a greater challenge. To achieve that goal, consumer companies must identify and capture deep insights into carefully selected consumer segments in the region’s key markets, as well as apply those insights to tailor their product portfolios and shopper marketing.

Employ foresight in identifying the potential of pre-emerging markets and channels. By considering the long-term macroeconomic and demographic trends in various MENA markets, consumer companies can uncover alternative scenarios that can, in turn, better inform the allocation of their strategic investments. For example, the burgeoning middle classes of North African countries, combined with the rapid development of infrastructure, will continue to translate into new consumer needs, thus creating and accelerating demand in previously underdeveloped categories in these markets. In Egypt, consumer electronics categories, such as home computers and mobile handsets, are experiencing high double-digit growth thanks to improved income distribution, developments in communications infrastructure, and more widely available and affordable technology. In the case of food, growth in per capita GDP can predict demand in new categories; for example, purchases of snacks and impulse foods grow in tandem with that metric. Having such foresight can enable companies to define their category priorities and invest in them at earlier stages, thus constructing a strong foundation for the future and staying ahead of the competition.

Consistently identify and emphasize influential consumer segments over time and across the region. It is unlikely that a company can economically win share in all consumer segments in such a heterogeneous market. Therefore, marketers should target those segments that are not only attractive in terms of size, growth potential, and willingness to pay a premium, but that also feature a strong fit with the positioning of their brands and are influential enough that their word of mouth (a powerful force in the MENA region) will spill over into other segments in the broader market.

For example, consumer electronics companies might consider focusing their investments in the early stages of development in highly influential segments, such as upper-class young adults living in urban centers, instead of attempting a mass penetration from the outset. Such a strategy not only keeps a check on investment levels, it also allows companies to gain further insights into local consumers and optimize their marketing strategies before introducing a broad portfolio of products to the wider population.

Consistently engage targeted segments to capture high-quality insights. The development of deep consumer insights, an asset that is not easy for competitors to replicate, continues to be a major challenge in the MENA region. But it can be done if marketers consistently target a core strategic segment over time and across geographies, and use the information gained from tracking and observing consumers to develop a deeper understanding of their functional and emotional needs.

To do so, companies must allow their overarching brand and consumer insight strategy to determine the way in which they collect insights. For example, if companies hope to differentiate themselves from competitors based on customers’ post-purchase brand experience, they will need a certain type of data:
They will primarily seek consumer feedback on issues including product performance, service call centers, and warranty response, perhaps via online forums or quant surveys. By contrast, companies that aim to differentiate based on in-store experience will need to ask consumers, through in-store surveys or other mechanisms, about how they felt while shopping; what they thought of the store personnel’s service, knowledge, and attitude; their opinion of the store layout; and their experience of the brand. The need for different data necessitates different processes, tools, and survey methodologies. If companies don’t have a clear direction up front, they typically end up with an overload of consumer data that has no clear use or connection to the brand and marketing strategy.

At the tactical level, companies should consider how to most effectively use IT in collecting data, integrating various sources of input, and making it available to provide insight. Market research in the region is not yet comprehensive and reliable; therefore, companies will need to build their own research capabilities and ensure that multiple data platforms (e.g., in different countries) will ultimately be compatible. Building such IT and data infrastructure is no small task. Best-in-class brands have done this by deploying in-house global research teams to conduct MENA-specific studies and building fully staffed consumer insight teams on the local level. Such teams can work with external vendors to conduct research projects, but by developing their own insights, they can extract greater value from these investments. Companies can also standardize their research output and build a MENA insight library, which will help ensure continuity, capture the level of detail needed in such a diverse environment, and collect time-series data, which can bring tremendous analytical power to bear on insight development.

Use insight to inform product development and better tailor product portfolios to the needs of the region. Companies must apply the insights gained by the activities above if these insights are to provide value. By identifying unmet consumer needs and providing an agile response, companies can develop tailored product features and new product offerings. For example, when Colgate developed a new soap for the MENA market, it included black cumin seed, an herb known as *habba souda* and used in foods and traditional medicines, in the formulation. Major appliance companies, including Samsung, LG, and Haier, have increased the capacity of their washing machines to 9 kilograms and 12 kilograms to accommodate robes and abayas.

Of course, this kind of tailoring must done carefully because it creates complexity and cost, and can even damage global brands. But when it enables companies to better cater to and build loyalty among regional consumers, and conditions for critical mass and margins can be met, such customization can be hugely successful.

Apply insights to better target consumer and trade promotions. Consumer insights can also be used to better target trade and consumer promotions by adjusting for differences in shopping behavior across segments, retailer channels, and shopping occasions. As in other regions, the most successful consumer companies in the MENA region will tailor their marketing messages and offers to distinct types of consumers. Although price plays a significant role in promotions due to the importance of affordability for MENA consumers, it should not be the sole consideration. With better insights on hand, branded players are able to carefully design their overall value propositions (encompassing price as well as brand image, product quality, packaging, and features) to be clearly positioned as superior to private-label offerings. These are not new requirements, but they are increasingly critical in the region’s highly competitive, post-crisis environment.
ACHIEVING SUSTAINED PROFITABILITY IN THE MENA REGION

The most ambitious and profitable consumer companies in the Middle East and North Africa will be the ones that do not stop at the foundational level. They will drive for the ultimate marketing currency—consumer loyalty—by cultivating a clear understanding of their brand performance, making the right marketing choices, and creating a consistent brand experience throughout the consumer life cycle. They will support these goals by constructing and maintaining the right local engagement models.

Understand brand performance to optimize marketing choices. The prerequisite to defining the right marketing strategy is having a clear understanding of a brand. The analysis that leads to this understanding should cover all stages of the purchase funnel, consider the competition, and be mapped over time to identify trends and assess progress. Crucially, the knowledge derived from this analysis should be used to drive marketing investment choices.

For example, one company found that although its mobile phones ranked very high in consumer awareness in Saudi Arabia and Iran, they were weak in the consideration stage of the purchase funnel. Consumers knew about the brand, but they were not that familiar with its value proposition or benefits (see Exhibit 4). To address

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### Exhibit 4
Purchase Funnel Analysis Clarifies Marketing Choices

<table>
<thead>
<tr>
<th>BRAND PERFORMANCE ACROSS FUNNEL STAGES (PERCENTAGE OF TOTAL RELEVANT CONSUMER BASE)</th>
<th>MARKETING CHOICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>91% Maintain and optimize above-the-line activities</td>
</tr>
<tr>
<td>Familiarity</td>
<td>70% Skew above-the-line activities toward those capable of delivering more detailed brand messages/benefits</td>
</tr>
<tr>
<td>Consideration</td>
<td>35% Bolster in-store presence and enhance shopping experience</td>
</tr>
<tr>
<td>Purchase</td>
<td>25% Reevaluate pricing and promotions</td>
</tr>
<tr>
<td>Loyalty</td>
<td>20% Drive improved loyalty through customer relationship management programs</td>
</tr>
</tbody>
</table>

Source: Booz & Company
this issue, the company shifted its unnecessary investments in building brand awareness, such as billboards, to activities that allowed consumers to interact in real time with its phones and gain a better feel for the brand and its benefits, such as mall events. This shift in spending improved brand performance in the familiarity and consideration stages of the funnel and drove much higher conversion rates.

Create a brand experience across all stages of the consumer life cycle that is simultaneously consistent and tailored to the local consumer. True differentiation, which drives loyalty, can be achieved only by delivering a brand experience that is consistent across every consumer touch point and fully meets the needs of the local consumer (see Exhibit 5). To accomplish this, companies must identify opportunities to customize their marketing and brand touch points for local consumers while consistently maintaining their global brand image and equity.

Construct and maintain a powerful local engagement model. Companies that seek sustained profitability in the MENA region’s increasingly competitive environment will need to reshape their distributor-based, sales-driven local engagement models. A more robust mechanism will enable local representatives of companies’ brands to apply consumer insights in a way that is both better aligned with local markets and financially viable.

To create this model, companies must, on a periodic basis, determine the necessary level of presence on the ground, if any. As brands mature and the MENA region becomes an increasingly important profit

Exhibit 5
Companies Must Create a Coherent Brand Experience across Consumer Touch Points

BRAND EXPERIENCE OVER THE CONSUMER LIFE CYCLE

Source: Booz & Company
center for a global corporation, management from outside the region will typically be replaced by regional offices. As the region’s importance continues to grow, each company may choose to construct a regional hub with country-level spokes to properly serve this diverse region. This growing presence should create a reinforcing growth spiral as increased presence leads to greater insight into the needs and aspirations of local consumers, and the insight leads to more effective marketing and greater profitability.

To define the most effective local engagement model or to revamp an existing model, companies must also identify the capabilities needed to build their brands in the MENA market and close any gaps that currently exist. These capabilities will be determined by product, industry, and the specific consumer segments and core channels the company has targeted. The model must define where the company’s brand-building capabilities will reside and clearly specify the roles of the company and its local partners in building its brands. This will likely differ by capability, by market, and by brand.

In addition, companies that choose to work with local partners must determine how their brand-building capabilities will be transferred to them (for instance, via training, rotation of principal staff, or the development of guidelines). Companies must identify the key activities in which strong coordination with their local partners will be required, to ensure that initiatives such as product launches and marketing campaigns are properly synchronized.

In choosing local partners, companies must consider not only their cost but their ability to build brand loyalty: Companies will need a performance management approach for their local partners that goes beyond sales and profits to ensure compliance with the full breadth of their brand-building goals. More holistic and strategic performance management metrics should be extended to include local partners and provide accountability for service, media coverage, and branding, as well as sales and distribution. Achievements in all of these areas should be fully linked to incentives for local partners (for example, some companies link these metrics to their distributor’s discount allowances to good effect).
MARKETING EFFECTIVENESS IN THE MENA REGION’S CONSUMER MARKETS

Consumer products companies’ opportunities for growth in the MENA region are highly attractive. But the dynamics and complexities of this region are challenging, and addressing them requires a long-term commitment and rigorous, consistent effort. Consumer goods companies will need to develop a nuanced portrait of the markets within the MENA region, deep insights into growing and influential consumer segments, a holistic approach to the consumer life cycle, and highly aligned, collaborative local engagement models. The reward, however, will be well worth the effort. Consumer goods companies that work hard to capture leading positions in the Middle East and North Africa now will prosper as the region continues to grow in the decades ahead.

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