

Reshaping the future of consumer goods distribution in the Middle East

As the consumer goods market in the Middle East matures, the traditional advantages enjoyed by local distributors are fading. We interviewed leading players who feel that the Middle East is an increasingly attractive market, with brand principals relying less on local distributors, and instead increasing their footprint in the region, seeking to get closer to their end customers. However, established distributors in the region can still compete if they take concerted steps to improve the quality and range of services they offer.

In the past, most brand principals had a limited presence in the Middle East and relied heavily on distributors with large customer bases and local market knowledge. We believe that the landscape for distributors today is changing for several reasons. The retail market is maturing with a shift to modern formats (large groups of companies and chains), demanding enhanced capabilities in joint business planning and trade marketing. On the other hand, principals have increased their local presence with sales and distribution capabilities and placed greater demands on the distributors, expecting a higher degree of coordination, transparency, and serviceability. Consequently, distributors are losing their bargaining power, and seeing volumes and margins decrease.

Yet distributors can still provide a critical link in the value chain for consumer goods, provided they develop a unique value proposition that considers four factors.

First, distributors should excel at operational and commercial execution. They need to build strong logistics and warehousing offerings. Robust inventory management, reliable forecasting by using artificial intelligence, and strong fulfilment capabilities are necessary to ensure on-shelf product availability. Moreover, distributors need to develop dedicated teams with specialized expertise in channel and product categories, backed by strong merchandising capabilities. Systems and processes — such as logistics and sales and operations planning — need to be integrated with principals (the companies that do the bulk of selling) and supported by comprehensive back-end operations.



Local distributors with a unique value proposition can still be a critical link in the consumer goods value chain.

Second, distributors should build unparalleled local expertise. Importantly, they must develop a deep understanding of local market dynamics and consumer behavior to proactively identify opportunities. Moreover, they need to strengthen local networks and relationships, develop a qualified on-the-ground salesforce, and offer deep market insights and data management capabilities. Distributors should first excel in their home markets before thinking about expanding into other regions.

Third, distributors should curate the right portfolio mix and build category specialization. In order to build scale in a profitable manner, distributors should create an optimal portfolio that minimizes complexity and leverages synergies across product categories and adjacencies. They should build a mix of international and smaller/regional brands to ensure a balance between volume and profitability. They could also consider specializing in niche products or categories to improve overall portfolio economics.

Fourth, distributors should design and execute a differentiated channel strategy. Wider coverage across channels builds scale, while channel specialization ensures competitive advantage for the distributors. Middle East distributors should balance these divergent priorities, each of which has its own requirement. For instance, the modern trade channel requires strong key account management capabilities and a high degree of serviceability, whereas traditional trade calls for an optimized route to market, a focused portfolio, and stock keeping unit selection, along with strong on-the-ground execution. Co-ops and wholesale channels require distributors with a strong reputation and long-standing relationships, along with aggressive promotions. Hotels, restaurants, and catering require a dedicated salesforce with specialized talent that can effectively manage price sensitivities and quality considerations of this channel. Specifically in the Middle East, Hotels, restaurants, and catering are an underserved segment, and distributors can fill these gaps as a lever to expand into new markets.

Although these four measures help build competitive advantage, they are not sufficient on their own. The pace of change is accelerating, and distributors must expect to develop over time to meet the ongoing needs of brand principals in the region, in several areas. Distributors also require:

A win-win mindset with principals that allows for coordinated strategic and operational planning, transparency in operating costs, and integrated processes and systems.



Strong and practical experience in navigating local market laws and regulations.



Data analytics and data management capabilities to develop deep market and consumer insights.



The ability to recruit, retain, and upskill talent required to operate and compete in changing market conditions and complexity.



The maturation of the consumer market in the Middle East brings new opportunities for local distributors to boost revenue and margins. Unlike in the past, however, local players cannot claim this market by default. Instead, they must compete for it and move beyond transactional relationships to create value in a more complex environment. We believe they are up to the challenge.

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