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How Coronavirus is Changing the FMCG Landscape in the Middle East

By Mehrnoush Shafiei
30 March 2020

This article is part of a series on COVID-19 focusing on how the outbreak is affecting industries.

Coronavirus (COVID-19) has created a crisis for fast-moving consumer goods (FMCG) retailers globally and poses specific challenges to the Gulf Cooperation Council (GCC) region and other Middle Eastern countries. The COVID-19 pandemic in the GCC is occurring against an already bleak economic backdrop, where consumer confidence has been waning for the past few years, fuelled by sluggish GDP growth, oil price declines, and regional turbulence.

Responses to contain the virus have put many businesses at risk as governments such as the United Arab Emirates (UAE) have closed their borders and calls for self-isolation have made many consumers afraid to go out in public. Other stringent measures taken by governments throughout the GCC include a massive program of testing, penalizing those who spread fake news relating to COVID-19, doubling up on cleaning public spaces, and offering free sanitizer pods.

Additionally, the UAE and Saudi Arabian governments have both announced massive economic stimulus plans, AED100 billion and SAR120 billion, respectively, to promote liquidity to private sector, lending to small and medium entrepreneurs (SMEs), reduce fees on credit cards, and defer bank payments for six months. Water and electricity bills will also be reduced for commercial and residential households. Such actions engender

a strong sense among residents that "things are under control".

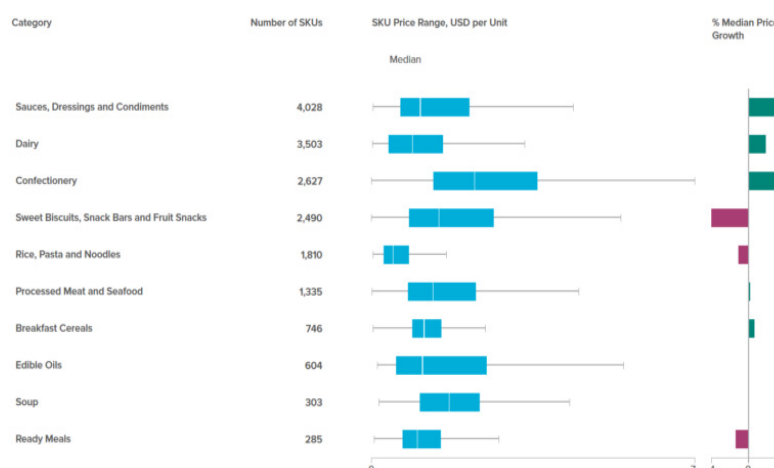
Euromonitor International has identified those industries that expect to see a strong surge in sales, such as packaged food, consumer health, and home care, primarily driven by heightened demand for essential goods. For many other industries, the situation will become extremely difficult, but there are a number of strategies manufacturers can employ to mitigate some of the worst effects. These include a greater push towards e-commerce, showcasing alternative products to 'essential goods', as well as moving towards more delivery or takeaway services. Retailers which are more agile, more local, and more responsive to consumer needs will be in a stronger position to recover once the crisis is over.

Pricing in the GCC Holds Steady Despite Reliance on Imported Goods

There are very tight financial links between the GCC and the rest of the world, which will inevitably impact the region. From a consumer perspective, there is a worry that, since most goods are imported, retailers will price gauge essential household items. Governments have insisted this worry is unfounded and have called on retailers to increase supply in light of the heightened consumer demand.

Considering the sudden increased strength of the US dollar and the fact that many GCC currencies are pegged to it, it is not expected that the prices of goods will skyrocket in the region. On the contrary, we can even expect some softening due to the strong US dollar, which could potentially

United Arab Emirates: Monthly Price Change for Select Packaged Food Products



Source: Euromonitor International VIA database, monthly price change (22 February-22 March 2020) for selected packaged food categories

make imported goods cheaper. Indeed, Euromonitor International's pricing tool, VIA, currently shows prices holding still, although supply availability may either increase costs or face bottlenecks. Some retailers may slash prices in order to win consumers, while others may increase them to boost their margins.

Packaged Food and Fresh Food: Import Dependency Encourages a Shift to Local Production

As expected, COVID-19 has turbocharged the non-perishable food industry, as people opt for foods with longer shelf lives, such as rice, pasta, and instant noodles, fearing that global manufacturing will unravel. In response, major players in the packaged food industry, for example, Majid Al Futtaim, have taken to social media to alleviate such concerns.

Nevertheless, the GCC relies heavily on imports, so there has been an increased emphasis on local production, especially in the case of fresh produce like tomatoes and cucumbers. Savvy manufacturers of products with longer shelf lives, such as UHT milk and frozen food, which may not typically be viewed as 'essential,' can promote their longevity. In the UAE, the snacks category has been steadily growing, with sales totalling AED5,208 million in 2019 and expected to see marked growth as consumers stay indoors during the COVID-19 outbreak.

Beauty and Personal Care: Local Players to Compete with Multinationals

The beauty and personal care market, worth SAR19,635 million in Saudi Arabia and AED8,398 million in the United Arab Emirates respectively in 2019, has also been significantly impacted, with increased demand for hand sanitisers. This category is dominated by international players, Dettol and Purell, but a window of opportunity has also opened up for local players, such as Epoch Cosmetics & Toiletries LLC, with the Elegant brand. While keeping up with such huge demand will be a challenge, with ramped up manufacturing, local players could gain share at the expense of multinationals. Foreseeing potential bottlenecks in production and supply chains will be key.

Similarly, bar soaps and liquid soaps are seeing a resurgence, with consumers buying local brands if their usual multinational brand is out of stock. Beyond the basics of beauty and personal care, there is an expectation that COVID-19 will fuel the already ascendant at-home self-care rituals popular among millennials and potentially increase sales for certain hair care products, like colourants, as hair salons are forced to close.

We can expect to see heightened traffic in retailers which are already strong in e-commerce, such as Sephora, as consumers move to channels that provide less risk to the virus's exposure, as quarantines, social distancing and lockdowns come into force. Yet, as with all

e-commerce options, ensuring delivery to consumers in a timely manner will be key in maintaining the trust and continued purchasing.

Consumer Health: Demand for Pharmaceuticals that can be Stored for Long Periods

COVID-19 has led to a spike in demand for paracetamol, zinc supplements, and various vitamins, such as effervescent vitamin C tablets, as consumers look to boost their immune systems, with sales often stemming from first-time consumers.

Many residents of the UAE hail from countries in Asia where a strong tradition of herbal medicine exists to treat flu-like symptoms; fears of limited access to supplies has incentivised some consumers to reach for pharmaceuticals that they can store for long periods. To hold onto these consumers, vitamins and dietary supplements manufacturers should promote the long-term benefits of taking them to better safeguard against illness in the future.

Consumer Finance: Consumers Will Go Cashless

COVID-19 may provide a tipping point to a cashless society and further digital connectivity. Even from a health perspective, not having to use cash in transactional exchanges lessens the potential impact of spreading the disease. The move to mobile has already been happening in the GCC, but this is a moment of acceleration for the trend, especially with online traffic intensifying as people stay inside. The demand for contactless mobile payments, such as Apple Pay and Google Pay, is expected to grow, and this will provide a major shift in the retail landscape of the GCC, where cash (and cash-on-delivery) has hitherto remained king.

According to Euromonitor International's Digital Connectivity Index, the UAE is ranked 14th globally in both fixed and mobile broadband. This puts the country in a strong position to become one of the leading cashless societies in the world, joining the ranks of Denmark, Australia, and South Korea. In addition, the UAE has rapidly developed its blockchain ecosystem and a robust legal framework to enable the adoption of blockchain-based payment solutions for remittances, consumer payments, and central bank digital currency in a secure manner.

Communication is Key, especially for Millennial Consumers

Even before the COVID-19 crisis, millennial consumers, who are the key consumer group in the GCC, wanted to know what their brands stood for, and this is true now more than ever. Centralized brand communication, with the goal of being consistent and empathetic about measures being taken during this crisis, is of utmost importance. How companies react during this downturn will determine the strength of their recovery once the crisis is over. ■

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Fresh Food in Thailand**