The shift towards immersive shopping:

New opportunities for retailers in KSA

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Introduction

The adage that the customer is king has never been more appropriate than it is today. In the past, the emphasis was on providing a high level of customer service within a fixed product range. Today's customers are increasingly in the driving seat across the whole business, demanding not only highly differentiated, personalized products but also defining how they expect brands to interact with them at the level of both the shopping experience itself and alignment with personal values such as sustainable practice.

Within the Middle East region, the new dynamics are creating a growing tension between customers and retailers. On the one hand, customers, focused on convenience, are turning to e-commerce to find the products they want quickly and avoid the queues at retail checkout lanes. On the other, they are experiencing frustration with products purchased online that do not meet their expectations – a consequence of buying without experiencing the product firsthand at the point of purchase.

In short, customers are seeking the convenience of buying online with the confidence of buying in-store.

Retailers are facing the question of how to connect with and meet the evolving needs of this new generation of shoppers. How do they provide a retail experience that doesn't force the customer into a compromise between confidence and convenience? And how do they do this while meeting expectations of ethical practice across the many social issues that are top of mind among today's shoppers, especially among millennials and Generation Z buyers?

We believe that immersive and predictive technologies provide the means not only to offer highly customizable and ethically sourced products, but also to significantly enhance the in-store retail experience. Yet retailers in the region have been slow to implement these technologies. To build and maintain competitive advantage in the new era, retailers need to look at these technologies not as an add-on to their traditional business model, but as the backbone to new, hyper-responsive ways of working to attract and win the loyalty of customers that today have more choice than ever before.

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From clicks to bricks

The shopper's tradeoff between convenience, social engagement and entertainment

Malls in Saudi have traditionally been about more than just retail. In a region where the climate is not conducive to the traditional outdoor high street experience, malls became gathering places where Saudi shoppers could meet friends, explore entertainment options and shop.

Yet Saudi shoppers, as was acknowledged in 2018, have been among the most connected and digitally savvy in the world. They are more likely to act as finders across all product categories, and across both online and offline channels. *(The Saudi Online Shopper, Ipsos, 2018).*

It is therefore not surprising that, especially during the pandemic, Saudi shoppers switched quickly to buying online. Even after the pandemic, the preference for buying online, via mobile phone or smartphone, remains strong and prevalent, and still continues to win over buying in physical shops, 42% vs 40% *(GCIS Pulse 4, PwC)*. The Saudi shopper's swift adjustment to online buying was accompanied by a focus on health and wellbeing, a preference for sustainable and eco-friendly products, and attention to the brand's identity, values, and purpose. *(GCIS Pulse 3 and Pulse 4, PwC).*

Yet during the extended period of public health restrictions, shoppers clearly missed the social aspect of shopping in-store, **while the inability to try on products prior to purchase has been a clear hindrance to their online shopping experience: 50% overall – 66% among millennials** (*Future of Shopping, Snap Inc. 2021)*. Indeed, in 2022 Saudi shoppers returned clothing bought online with a total purchase value of 2.6 billion SAR – a significant lost revenue opportunity for retailers.

At the same time, malls are increasingly shifting their focus to providing a wider range of entertainment offers to attract customers. An estimated 50% of new retail space scheduled to open in Saudi Arabia over the next few years is focused on entertainment. These new destinations have the potential to become high traffic areas that will benefit those physical retailers able to provide shoppers with the in-store experiences they seek.

As the number and scale of malls continue to increase across the country, integrating digitally-enabled features into the physical retail space will become more important. Retailers and operators need to meet customer demand for convenience and speed while retaining the social engagement and entertainment offers that shoppers have always enjoyed in malls.

Evolving shopper behaviors

The complexity of the online footprint

Today, Saudi shoppers are polyvalent and more complex to categorize in plain demographics. They are demanding more convenience in online and physical shopping in less time. They are willing to pay more for better experiences *(86% – Maximizing the known and navigating the new VISA Presentation, 2022)*. In particular, 38% are willing to pay higher than average prices to a great extent for bespoke or custom-made products and 40% for local products. Support for the local economy (49%) and convenient service (46%) are underlying motivators for consumers' willingness to pay more for domestically produced or sourced products. *(GCIS Pulse 4, PwC).*

While 82% of Saudi consumers state they almost always buy from brands that are on promotion, looking ahead to the coming decade, a second layer of consumer thinking is likely to influence online shopping behavior: shopping by the personal values that matter most to each individual customer, such as being halal, locally made or sustainable *(Future of Shopping, Snap Inc. 2021)*. New offers, enjoyable and innovative products and services and data protection have a great impact on over 60% of Saudi shoppers when it comes to their trust in the brand. *(GCIS Pulse 4, PwC).*

42% of Saudi consumers are shopping online via mobile phones, 24% using Smart home voice assistants and 18 % via wearable devices *(GCIS Pulse 4, PwC)*. Also, 63% of Saudi shoppers recognize social media as the prominent brand and product discovery engine *(Future of Shopping, Snap Inc. 2021)*. They have by far more tools for smart buying and expect to enjoy seamless cross-channel experiences.

Saudi shoppers' latest and top pain points during in-store and online shopping could be indicative of the complex online footprint. The top two issues are common for both channels: rising prices, and out-of-stock products. In third place come the large queues for in-store shopping, which could have driven 12% of Saudi shoppers to switch to buying products online. For online shopping, the third pain point is the fact that the products can be of lower quality than usual, which could also drive online shoppers to move to in-store purchases. This is not the case for all stores, but it is very prevalent when a retailer does not offer an in-store experience *(GCIS Pulse 4, PwC)*.

> **Traditional methods of driving personalization are no longer sufficient.**

Consumers increasingly want their buying experience to be truly custom-made to their needs and convenience. It is a fact that personalization, the ability to tailor messages and offers at specific touchpoints, can significantly influence buying behavior across their journey. However, traditional methods of driving personalization, such as the order history are not sufficient anymore to understand the customer's online footprint.

Similarly, the retail landscape is becoming denser to navigate as the lines between online and offline are blurred into "phygital", the new hybrid space. It is becoming clear that the silos of the past cannot work for retailers if they want to engage their customers with authentic experiences at every touchpoint of their shopping journey.

In this new context, based on a personal and two-way dynamic relationship between the brand and the consumer, qualities such as honesty, transparency, and brand accountability in issues related to managing and using sensitive consumer information are considered globally among the top characteristics that can make or break a brand. Specifically for Saudi shoppers, a transparent data security policy and not passing on data to third parties remain key considerations for more than 50% of surveyed consumers. *(GCIS Pulse 4, PwC)*.

Towards a new retail experience

Retail has fundamentally changed across many sectors. Fast-evolving conversations around sustainability, diversity, supply chain and digital transformation are having an unexpected impact on business outcomes. Mapping out the shopping journey includes a wide variety of models, funnels, flow charts, diagrams and graphs which all have their own distinctive approach. The traditional division in stages (awareness, consideration, and decision) may still be valid, but the journey has become less linear and increasingly sophisticated. Customers expect to use their preferred method or channel at each stage, and at any time during a single purchase. They also expect the distance covered during this journey to be fast and frictionless. Understanding the customer's behavior is thus also becoming complex as it is harder to predict where a customer's journey will start, which channels they will visit, and in what order they will visit them.

Proper use of technology could support navigating this complex environment as it boosts personalization for seamless experiences. Artificial intelligence (AI) enables hyper-personalization, which includes leveraging real-time behavioral data and advanced analytics to offer the right promotions and tailored messages in real time.

In digital storytelling the brand is no longer the protagonist. Virtual reality (VR), augmented reality (AR), and mixed reality have enabled people to create, collaborate and explore computer-generated environments like never before. There is obviously a different role for the customer who has the power to narrate a brand story, and that is an important element in the relationship, as a consumer interacting with digitalization also becomes an ambassador and spokesperson of the brand. The resources provided by brands in online environments are integrated within consumers' narratives of self-expression and become the "branded self".

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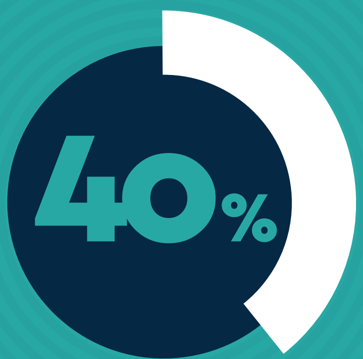
Immersive technologies: A powerful tool with multiple benefits

More importantly, for retailers and brands, digitalization is a very powerful tool with multiple benefits, in terms of customer experience and satisfaction, brand awareness and business growth, reduced product returns, sustainable practice and eventually increase in revenues.

Today 7 in 10 Saudi consumers would go out of their way to visit a store that had at least one advanced technology feature such as smart mirrors and interactive screens.



Over 40% would go out of their way to visit a store that had smart mirrors, while **more than three quarters would use these features overall**, highlighting how open consumers are to exploring new technologies as part of their in-store experience *(Future of Shopping, Snap Inc. 2021).*

However, while the majority of Saudi consumers have heard of VR, **a minority has used it** in a retail environment *(GCIS Pulse 4, PwC)*, partially due to the reluctance of brands and retailers who still consider such technological advancements **for entertainment and fun purposes only**.

Creating immersive experiences

At this point in time, consumers are more receptive to immersive technology than brands are actively providing them. One development worth noting is the emergence of a minority (17%) of early adopters who say they have used a virtual reality headset in the last six months – for example, to watch a movie or TV show or to play an online game. We expect this proportion to grow over the next year, given how younger Saudi consumers are increasingly connecting with the latest virtual reality (VR) and augmented reality (AR) technologies, including most notably the metaverse. *(GCIS Pulse 4, PwC).*

AR – A missed retail opportunity?

Narrowing down on AR, which is an interactive experience that merges virtual elements with the real world, it is estimated that by 2025, around 75% of people across the globe and nearly everyone with a smartphone will be frequent AR users. By then almost all of the Gen Z and Millennial population in Saudi Arabia will be frequent users. 73% of consumers who have used AR in KSA when shopping say it encourages them to make a purchase, and research predicts that we will see an almost 25% increase by 2025 in the proportion of Gen Z shoppers who use AR before buying a product. This demonstrates that AR continues to prove its commercial clout, moving consumers closer to checkout. AR, similar to other digitization tools, is no longer a figment of the future, and is very much present today.

But rising adoption of such technologies is far from the whole story. There is a clear disconnect between how AR is perceived by consumers vs. how it is perceived by brands. Research shows that while 94% of brands consider AR to be primarily for fun, only 53% of consumers in KSA see it this way. 7 out of 10 consumers now identify shopping as their main reason for using AR while 84% of consumers are interested in using AR to interact with a product before buying. *(Augmentality Shift, Snap Inc., 2022).*

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AR can fuel extraordinary end-to-end consumer journeys that give brands an advantage at every stage. *(Augmentality Shift, Snap Inc. 2022)* AR supplements reality, offering a promising opportunity for brands to bridge the gap between online convenience and a more impactful in-store experience, from AR navigation in a mall, in-store displays or storefronts to dressing rooms and enhanced product information. **93% of brands who have successfully implemented AR agree that AR offers engaging shopping opportunities, and 78% of consumers agree that AR helps them shop in new and exciting ways.** This is why interacting with products that have AR experiences leads to a **94% higher purchase conversion rate**. *(Harvard Business Review Article, "How AR is Redefining Retail in the Pandemic").*

In addition to increased purchase intentions and increased sales margins through willingness to pay more, AR can lower the returns by allowing the customers to easily try-on a variety of products. Being able to see and try products virtually prior to purchase gives consumers greater confidence in their choices and reassures them that the product description is accurate. 45% of online clothing returns by Saudi shoppers potentially could be avoided by using AR in the shopping process. This equates to **consumers in Saudi Arabia spending 2.6 billion SAR on clothes online in the last year that they have returned** which could potentially be avoided by using AR. *(Future of Shopping, Snap Inc. 2021).*

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AR is already delivering personalized and engaging consumer experiences, but there is room to explore the untapped potential of this innovative tech. Consumers' interest is high for a broad range of AR experiences, compared to brands' interest in delivering them. Brands need to take a bold step forward to understand and meet the needs and expectations of their customers. Overall, it is a powerful tool that needs to be explored and exploited further.

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Conclusion

Engaging the shopper of tomorrow

Retail is a sector rich in creativity and one that has historically embraced and shaped social trends across the region. For retailers in Saudi Arabia and the wider MENA region, the new imperative is expected to lead, not to be led by the evolution in customer behavior. As per our discussion, 73% of consumers who have used AR in KSA when shopping reported higher purchasing behavior. Our research predicts that we will see an almost 25% increase by 2025 in the proportion of Gen Z shoppers who use AR before buying a product.

However, whilst customers seek the convenience of buying online with the confidence of buying in-store, many brands continue to see the technologies that enable this fundamental need as being primarily for fun rather than a business opportunity. **The opportunity for brands to engage with customers across a wider spectrum of the purchasing journey is not only significant, but also comes with demonstrable advantages in terms of operational efficiency, financial performance, customer loyalty and competitive advantage.**

Many retail brands remain on the back foot in terms of recognizing and acting upon this trend, as discussed in this paper. The challenge that retailers face today is less about exceeding customers' expectations and more about simply meeting them.

Technologies such as AR can be incorporated incrementally into a brand's communication or product try-ons in a way that is not necessarily costly and requires little by way of complex integration. Implementing immersive technologies into the entire customer journey requires further investment in back-end integration. However, the substantial value that this adds to the business outweighs the cost of implementation.

There have been brands that have secured first-mover advantage. However, for those that are still evaluating the opportunity – and those that are not yet considering it – **the question becomes not "Will we do this?" but "How long will it be before online integration is a basic cost of entry?"**

73%

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