&|KEARNEY

Retail Innovation vs. Customer Expectation: Who is falling behind?

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Executive
summary

01

The pace of innovation in Saudi Arabia holds significant potential for retailers across sectors. As the Kingdom continues to accelerate its innovation economy, new digital business models are rising, and consumers are leaping ahead of the curve in adopting innovative shopping experiences. Yet, retailers still seem to be lagging in digitizing across their service offering. This paper explains the reasons behind the current gap and provides a forward-looking guide for retailers navigating the evolving digital landscape in the Kingdom.

Saudi Arabia's current innovation potential is underscored by its remarkable **97% internet penetration rate in 2023**.[1] The Saudi consumer's digital prowess is evident in their engagement, **surpassing 5 hours of daily mobile use**[2] and heavily relying **on social platforms for product discovery**. This significant technological shift aligns the Saudi market with global trends, particularly in e-commerce, which is projected to grow by approximately 8% over the next five years and reach around USD 5.8T.[3] In this projection, the Middle East and Africa emerge as the fastest-growing region, with KSA playing a significant role. Yet despite Saudi Arabia's commitment to digital transformation, **retail isn't perceived to be moving fast enough**, with **less than 30% of consumers seeing the sector as being technologically advanced.**
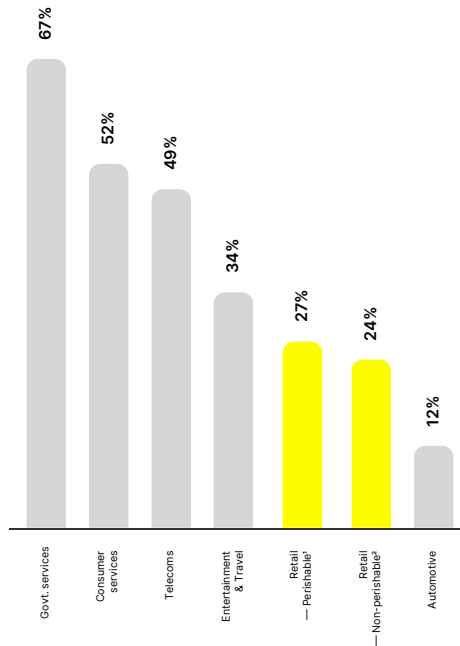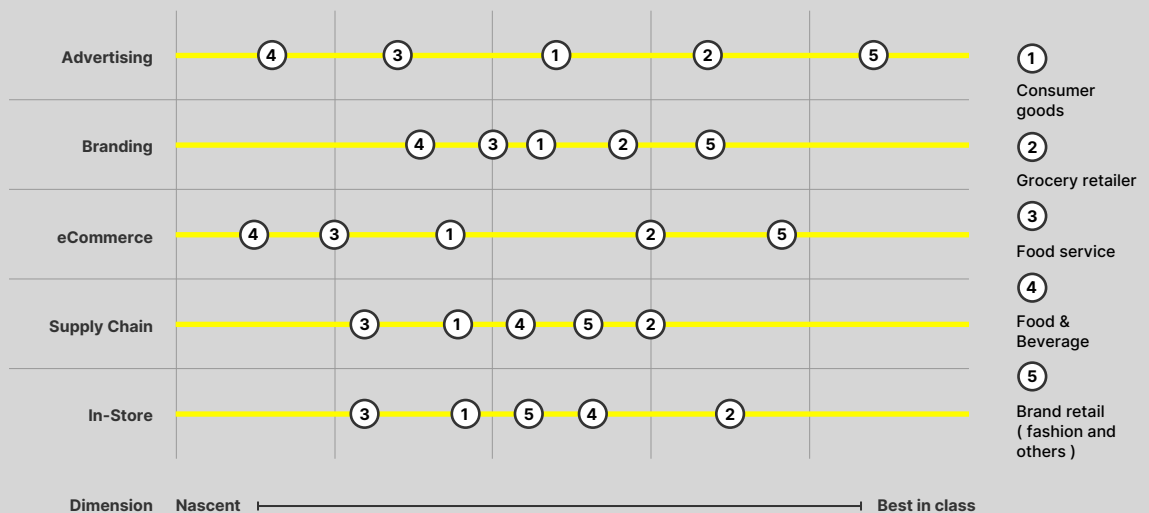

Figure 1:
Perception of most technologically advanced sectors, % of respondents

Bar values: Govt. services 67%, Consumer services 52%, Telecoms 49%, Entertainment & Travel 34%, Retail — Perishable[1] 27%, Retail — Non-perishable[2] 24%, Automotive 12%

In interviews with retail leaders in KSA, lifestyle brands exhibited relatively advanced digitization, followed by grocery retailers, while local CPG players lagged in digital maturity. Common barriers to innovation across sectors include underinvestment, not enough C-Suite focus, reliance on traditional media, and resistance to systematic value chain digitization. Leaders agree on the crucial need for better digital strategies to understand consumer needs, optimize reach and support customer journeys across the various touchpoints. Tailoring digital levers to enhance omnichannel experiences is essential to overcoming these challenges. Retailers know they're falling short; the question is what are they going to do about it and when?

Figure 10:
Stages of excellence across key dimensions

Dimension	Nascent → Best in class
Advertising	4 3 1 2 5
Branding	4 3 1 2 5
eCommerce	4 3 1 2 5
Supply Chain	3 1 4 5 2
In-Store	3 1 5 4 2

Legend:
1 Consumer goods
2 Grocery retailer
3 Food service
4 Food & Beverage
5 Brand retail (fashion and others)

There is a significant opportunity for retailers to **accelerate innovation by focusing on both front-facing and back-end areas of their business**, in particular building the brand and developing the infrastructure. Digitization encompasses a broad spectrum of transformative possibilities for corporations across industries. In the context of retailers, the impact of digitization is pervasive, influencing virtually every function within the business ecosystem. Through a thorough analysis of local consumer and retailer feedback, this report presents a series of strategic and tactical recommendations applicable to retailers across different levels of digital maturity. Among the diverse digitization pathways available for retailers, **five areas stand out for maximum impact: advertising, branding, eCommerce, in-store experience, and supply chain**.

ADVERTISING While digital ad spend in KSA is among the fastest growing in EMEA, it still ranks #9 according to the 2022 IAB MENA Digital Adspend Report[4], highlighting significant growth opportunities. Retailers should accelerate the shift of ad budgets towards digital media, focusing on performance-based strategies. This shift will allow them to reap the benefits of data-driven advertising, link spend to revenue returns, establish metrics at each customer journey stage and invest in accurate data collection mechanisms. Additionally, retailers should strategically select social platforms based on campaign objectives and customize content to maximize platform effectiveness, whether aiming to increase awareness, consideration, or enhance ROI.

BRANDING Digital innovation widens the spectrum of how brands show up and define their identity. As opposed to solely focusing on short-term conversions such as swipes and clicks, retailers should also leverage social media, online content, and interactive experiences to influence brand perceptions, build meaningful connections with audiences and ultimately cultivate brand loyalty.

E-COMMERCE eCommerce is rapidly growing and is especially attractive to regional retailers as it allows businesses to extend their reach beyond physical storefronts. Developing capabilities in omnichannel purchasing experiences and seamless customer engagement is essential. AI-driven campaigns, order recommendation engines, virtual product visualization and personalized customer experiences (including AR-powered catalogs, try-ons, etc.) can significantly enhance the e-commerce journey and reduce monetary losses associated with product returns.

IN-STORE EXPERIENCE Even within physical retail spaces, digitization plays a crucial role in enhancing the in-store experience. Most significant in-store automation to reduce waiting times and enhance customer satisfaction is expected to be self-checkout, followed by other mechanisms like mobile checkout, navigation assistance apps, smart mirrors, etc., while AI-driven optimization aids store staff in delivering better services.

88% of shoppers are more likely to recommend brands that create innovative shopping experiences

SUPPLY CHAIN Innovation should be steered towards optimizing supply chains with real-time visibility, enhancing delivery and fulfillment capabilities, collaborating with suppliers using advanced analytics, dynamically optimizing routes, and automating warehousing processes to meet the growing demands of e-commerce are critical to create an efficient supply chain.

Introduction

02

Innovation pockets across retail organizations

Digitization encompasses a broad spectrum of transformative possibilities for corporations across various industries. In the context of retailers, the impact of digitization is pervasive, influencing virtually every function within the business ecosystem. We focus our paper on innovation that serves both front and back-end strategies, in particular brand building and infrastructure development. Under these two buckets, five pivotal areas warrant particular focus: Advertising, Branding, eCommerce, In-Store Experience and Supply Chain. While each of these areas are managed separately, digital transformation should be embedded across them in order to create synergies across the organization.

Key hypothesis

Consumers in Saudi Arabia demonstrate a significant level of technological proficiency and awareness, consistently demonstrating a high level of adoption of new technologies and trends. Saudi Arabia's internet penetration rate stood at 97.2%[5] of the total population in 2023. The Saudi user base's digital savviness is further evidenced by the high amount of time spent on their mobiles, exceeding 5 hours of mobile use daily. This dynamic landscape of consumer behavior sets the stage for a significant opportunity for retailers to align with the digital preferences of their customers. Given the advanced digital engagement of consumers in the region, there is a significant opportunity for retailers to further embrace and integrate cutting-edge technologies within their operations. Our hypothesis, backed by consumer studies and expert opinions, suggests that consumer openness to digital solutions can lead to untapped retail opportunities. Bridging this gap presents an opportunity to unlock significant value as it prevents consumers from truly engaging with the brands and spending more actively. The retailers also know that to catch up with their customers, they will need to invest in tools, capabilities, and various kinds of organizational transformation. We believe that the companies that figure out the relevant use of digital across their businesses stand to gain disproportionate market share.

Methodology for this study

Our goal with this study is twofold. First, to paint a picture of the current Saudi retail environment. Second, to provide a prescriptive guide to help Saudi retailers innovate in a way that ensures their future success. Various sources were leveraged for this study:

Consumer surveys
Consumer behaviors were studied through a survey of 1,000 Saudi consumers who are active on social platforms and have reported instances of eCommerce purchase over the last year. To pinpoint areas for digital enhancement and prioritize improvements, we invited consumers to detail their experiences at various stages of the purchasing process, highlighting specific touchpoints associated with lower satisfaction levels.

Industry interviews across focus sectors
Extensive interviews were conducted within key focus sectors of the retail landscape. This included engaging with stakeholders in diverse areas such as Consumer Packaged Goods (CPG), lifestyle brands, food and beverage, food services, and grocery retail. These interviews provided a qualitative layer to our study, offering perspectives from industry experts, decision-makers, and other decision influencers.

Snapchat studies and desktop research
Public studies conducted by Snapchat over the previous 3 years were leveraged in developing this study. We also used various online reports, news sources and other credible sources to refine some of the insights presented in this report.

Assessment of global trends and application to the Saudi ecosystem
We studied global advancements in technology, consumer behavior and retail practices to come up with learnings which KSA retailers may find strategically important to their individual needs. This comparative analysis allowed us to identify transferable best practices, innovative solutions, and potential adaptations that could elevate the local retail industry in alignment with global standards.

Through these four steps, this study not only captures the current state of the Saudi retail environment but also serves as a forward-looking guide, equipped to anticipate and navigate the evolving trends and challenges shaping the future of retail in the Kingdom.

The retail
consumer
reality

03

Figure 1 (chart)

Sector	%
Govt. services	67%
Consumer services	52%
Telecoms	49%
Entertainment & Travel	34%
Retail — perishable[1]	27%
Retail — Non-perishable[1]	24%
Automotive	12%

[1]Perishable: supermarket, pharmacies, etc.
[2]Non-perishable: fashion/furniture, etc.
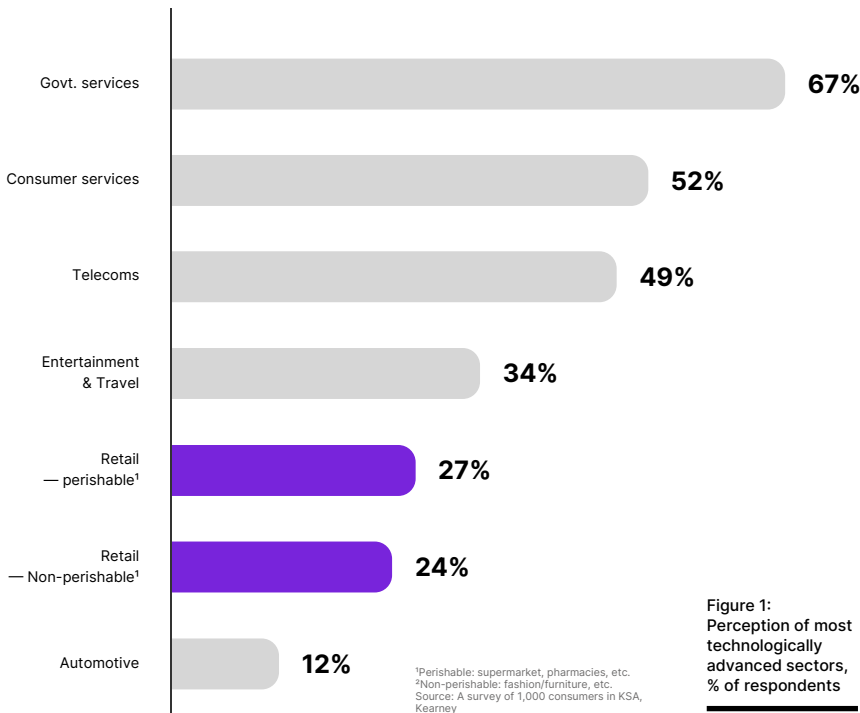Source: A survey of 1,000 consumers in KSA, Kearney

Figure 1: Perception of most technologically advanced sectors, % of respondents

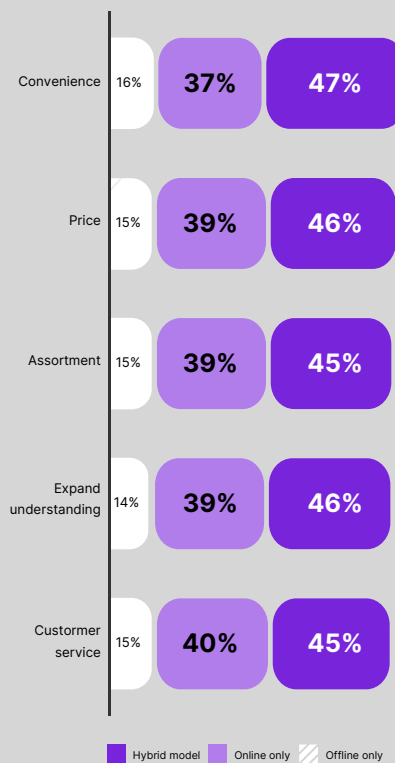# Overall dissatisfaction with digitization in retailers

Vision 2030 and the government's efforts to drive digitization have helped make certain sectors more advanced in the eyes of consumers. No sector is seen as being more technologically advanced than the government itself, our survey shows. Retail trails behind most sectors, ranking among the lowest. Only about a quarter of all survey respondents see retail as being technologically advanced in KSA.

Brick & Mortar alone is no longer enough

Most of the survey respondents (84%) express a preference for engaging in at least part of their shopping activities online. Among these, 46% favor a hybrid approach, integrating both online and in-store experiences, while 38% show a preference for exclusively online shopping. In contrast, a minority, representing 16% of respondents, view online shopping options as non-essential, still showing a preference for traditional in-store shopping experiences.

Comprehensive analysis demonstrates that hybrid and online-only shopping experiences are preferred over traditional brick-and-mortar due to their ability to meet key shopping criteria:

Convenience: While convenience was considered a key factor among all respondents, older customers are 2x more likely to prioritize convenience compared to younger demographics.

Figure 2 (chart)

Factor	Offline only	Online only	Hybrid model
Convenience	16%	37%	47%
Price	15%	39%	46%
Assortment	15%	39%	45%
Expand understanding	14%	39%	46%
Customer service	15%	40%	45%

Hybrid model / Online only / Offline only

Source: A survey of 1,000 consumers in KSA, Kearney

Figure 2: Preference of shopping, channel for each shopping factor, % of respondents

Value for money: Noted as a critical factor by participants across all age groups.

Wider assortment: Ranked as the third most significant criterion and highly associated with online or omnichannel shopping that is powered by larger product catalogues.

Quality of service: These elements were deemed of lower priority by respondents, yet were still considered to be better in hybrid models.

The hybrid shopping model, integrating both digital and physical retail elements, consistently attracts higher preference across essential metrics. This trend underscores a shifting consumer expectation towards a seamless omnichannel retail experience, diminishing the perceived value of exclusively offline retail formats.

Consumer purchase journey

The standard path of consumer purchasing encompasses stages of awareness, consideration, trial, purchase, and post-purchase engagement. Our goal was to explore how social platforms and digital tools influence each stage of this journey. The feedback from Saudi Arabian consumers provided insightful revelations.

AWARENESS AND CONSIDERATION

For many in Saudi Arabia, initiating a search for new product information, including prices and features, often begins online. Social media further stands as a key source for acquiring details about products. Our findings indicate that all survey respondents actively use social media, with Instagram at 77%, X (formerly Twitter) at 70%, and Snapchat at 68%. These platforms serve as avenues for users to explore opinions from influencers regarding specific brands, alongside the brands' self-representations. Notably, social platforms also facilitate the sharing of product recommendations among friends and family.

The increase in utilizing short-form videos for product discovery marks a notable trend. Whether it's a manufacturer's video or a consumer-generated one, these brief videos play a pivotal role in sharing compelling product insights.

The preference for getting product information through digital channels shows the value of precise, sharable, and timely information. The lack of these characteristics explains why offline advertising and other traditional media are increasingly coming into question.

Figure 3: Preferred channel to deepen product understanding, % of respondents ranking channel 1st
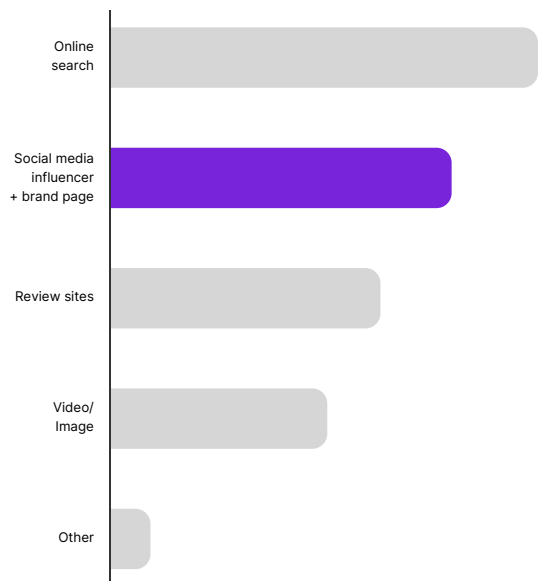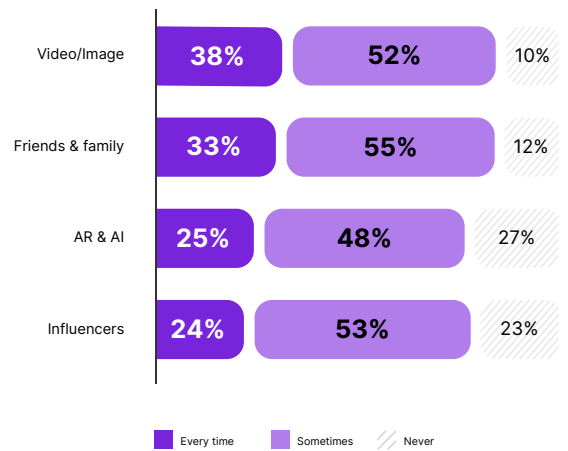

Source: A survey of 1,000 consumers in KSA, Kearney

TRIAL AND PURCHASE DECISION

Videos play a critical role in both the initial consideration of products by consumers and their final purchasing decisions. Our research indicates that 38% of participants rely on video or image content as a decisive factor in their purchasing process, enabling them to make informed decisions remotely, bypassing the need to visit physical stores. This underscores the effectiveness of platforms like Snapchat and TikTok, which feature narrative-driven content, proving pivotal in product and brand promotion.

Despite the increase in innovative shopping-enablers, friends and family continue to be among the most sought and influential sources when it comes to making purchase decisions. While this reality has not changed over the years, the domains in which they seek each other's advice has evolved. Social platforms have enabled real-time access to these sources of influence.

The adoption of advanced technologies, particularly augmented reality (AR), has seen a considerable uptake in specific retail categories. The survey indicates that 49% of respondents utilize AR functionalities, especially when shopping for lifestyle products such as clothing and accessories, to visually preview items prior to purchase. AR is seen to increase co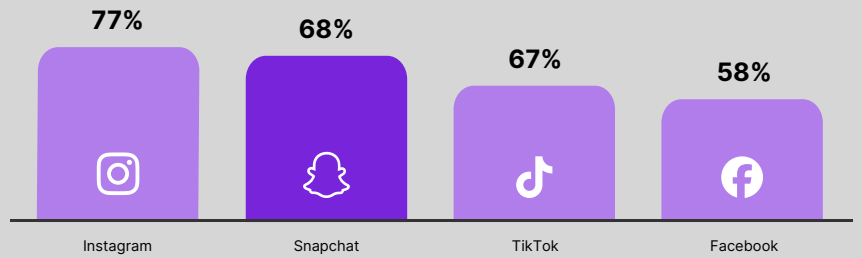nfidence in the purchase decision, especially in online shopping scenarios where a reference to a physical product is unavailable.

In the quest for influencer endorsements, Saudi Arabian consumers predominantly turn to platforms where they consume product-related videos and images. Snapchat emerges as the preferred platform for 33% of respondents seeking influencer content, followed by Instagram at 22%, and TikTok at 21%. However, the impact of influencers on purchase decisions varies significantly by age. Among consumers aged 45 and above, 40% report not relying on influencer recommendations in their buying process.

	Every time	Sometimes	Never
Video/Image	38%	52%	10%
Friends & family	33%	55%	12%
AR & AI	25%	48%	27%
Influencers	24%	53%	23%

Source: A survey of 1,000 consumers in KSA, Kearney analysis

	Instagram	Snapchat	TikTok	Facebook
	77%	68%	67%	58%

✔ **Clear leader, according to the survey**

	Instagram	Snapchat	TikTok	Facebook
Messaging		✔		✔
Sharing photos & videos	✔	✔		
Watching entertaining content			✔	
Staying up to date with news				
Discovering new brands / products	✔			✔
Sharing what was bought with friends		✔		
Following influencer content		✔		

POST-PURCHASE

The influence of social platforms on retail dynamics extends beyond the purchase moment. An overwhelming 80% of consumers who encounter dissatisfaction with their purchase turn to social platforms to share their experiences, often citing discrepancies between product expectations set by social platforms and actual performance, alongside issues such as poor customer service and insufficient product information.

However, the discourse on social platforms is not limited to negative feedback. In Saudi Arabia, consumers equally share their positive shopping experiences, celebrating satisfactory purchases. Remarkably, most satisfied customers take an additional step to engage with the retailers by following their social accounts, further solidifying the relationship between consumer and retailer post-purchase.

In addition to keeping their stores "top of mind" for consumers post-purchase, social platforms can also be used by retailers to manage the risk of returns. This is truest in product categories such as apparel (beauty, fashion, and footwear), where an AR-enabled virtual try-on can be used to narrow the gap between what a consumer is expecting and what that consumer gets. One-fifth of respondents say that if they had such a tool, their returns of products they buy online would drop to zero.

Figure 6: Frequency of sharing thoughts on purchases through social media, % of respondents

	Positive interaction	Negative interaction
Never	12%	21%
Sometimes	63%	56%
Every time	26%	24%

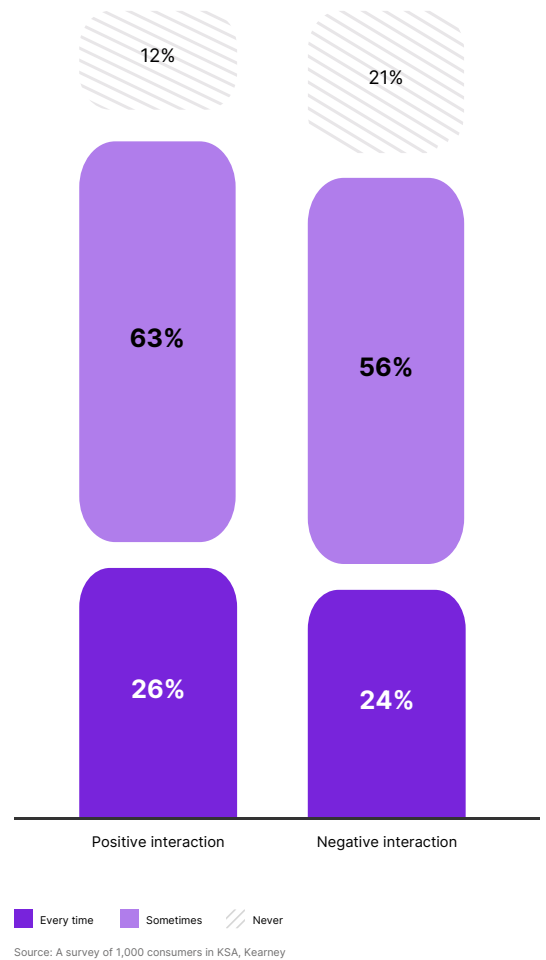Every time · Sometimes · Never

Source: A survey of 1,000 consumers in KSA, Kearney

Figure 7: Probability to interact with or follow a retailer's social media after a positive purchase experience, % of respondents

4%

7%

41%

49%

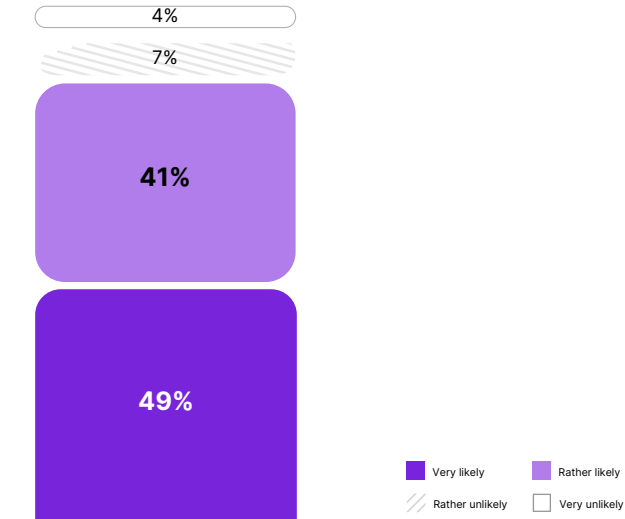Very likely Rather likely

Rather unlikely Very unlikely

Figure 8: Main challenges when shopping in-store, % of respondents

Solvable using digital solutions

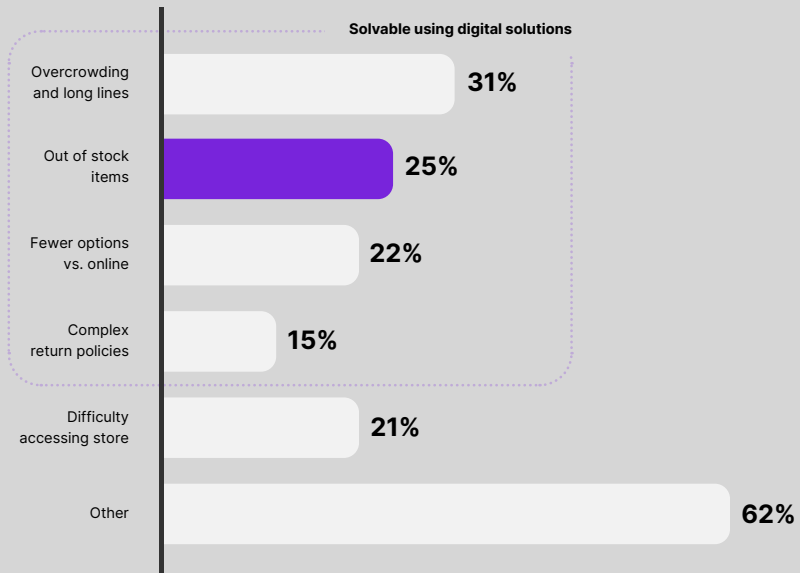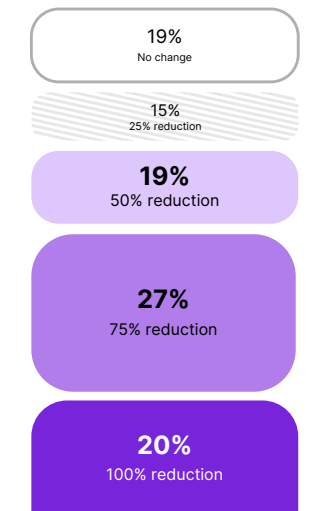|	
Overcrowding and long lines	31%
Out of stock items	25%
Fewer options vs. online	22%
Complex return policies	15%
Difficulty accessing store	21%
Other	62%

Figure 9: Expected change in number of returned items with use of AR / AI try-on pre-purchase, % of respondents

19%
No change

15%
25% reduction

19%
50% reduction

27%
75% reduction
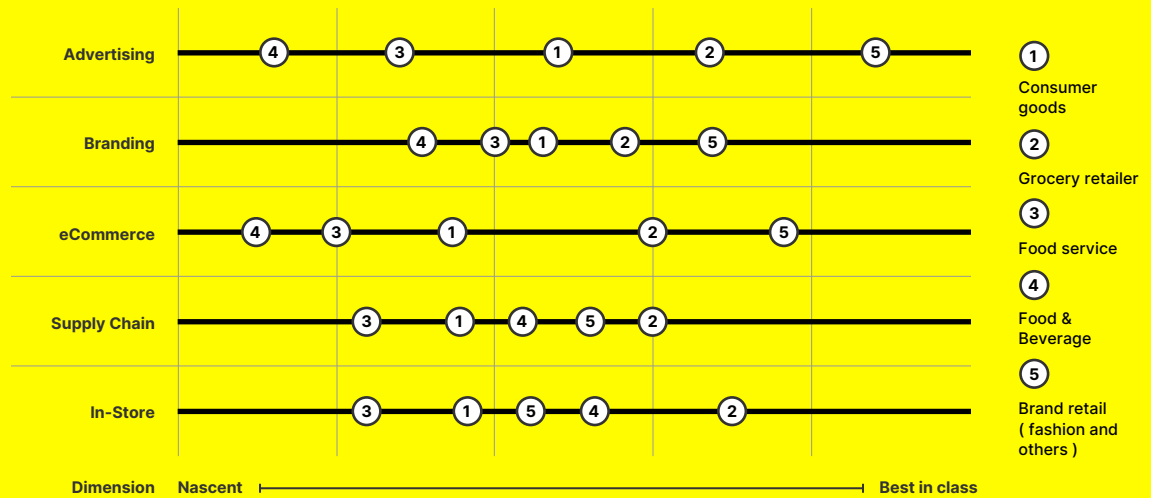
20%
100% reduction

State of digitization in KSA Retailers

04

Retailers are aware of how technologically advanced consumers in Saudi Arabia are, and know that consumers are making use of many new apps and digital tools. Retailers also know that in order to catch up with their customers, they will need to invest in tools, capabilities and organizational transformation.

The perspectives of Saudi retail leaders were unveiled through a series of in-depth interviews conducted by Kearney and Snapchat with twelve executives. Additional discussions were held with a select group of manufacturers, whose products are sold by these retailers, to broaden the scope of insights. These dialogues provided a comprehensive overview of the retail sector, revealing a unanimous agreement among C-suite executives on the need to prioritize digitization more prominently in their strategic planning.

Figure 10: Stages of excellence across key dimensions

Legend:
1. Consumer goods
2. Grocery retailer
3. Food service
4. Food & Beverage
5. Brand retail (fashion and others)

Dimension: Nascent ← → Best in class

Sector maturity across key retail sectors

In the realm of digital advancement, Saudi lifestyle retailers offering products such as clothing, footwear, bags, and accessories, are at the forefront in adopting digital tools and capabilities. In contrast, those in the consumer goods, groceries, and food and beverage sectors find themselves at a developmental lag.
An interesting deviation from this trend is observed among global retail chains operating in KSA, which exhibit enhanced technological integration due to directives from their international headquarters.

In terms of leveraging digital marketing for expanding market reach and improving conversion rates, grocery retailers stand out, second only to lifestyle brands. Meanwhile, entities within the food and beverage sector are navigating the initial phases of integrating digital advertising strategies effectively to boost their revenue growth.

The domain of e-commerce showcases lifestyle brands as pioneers, likely influenced by the increasing consumer preference for online shopping. This trend has prompted these brands to adopt omnichannel sales and service strategies, marking a significant milestone in e-commerce evolution for traditional retailers.

However, the edge that lifestyle retailers hold in digital integration does not extend uniformly across all operational areas. Particularly, the in-store experience and supply chain management see a reduction or absence of this digital lead.

Based on our interviews, we see four areas that are hurting all Saudi retailers' digitization efforts to one degree or another.

- **Ineffective use of customer data**
- **Challenges in increasing the impact of ad campaigns**
- **Quality of post-purchase engagement**
- **Challenges at different points of the sales journey**

Ineffective use of consumer data

Certain lifestyle retailers that offer loyalty programs are capitalizing on this data to gain a comprehensive understanding of the entire customer purchase journey. To enhance their prospects of success, these retailers are exploring supplementary data sources, such as the entertainment services favored by their customers.

Grocery retailers have made progress in collecting transactional data, yet the profiles generated from this data—such as social platform engagement and customer personas—are typically not interconnected with customer behavior.

Our interviews revealed several shared challenges. One notable challenge is the lack of data sharing between retailers and the manufacturers whose brands they carry. Manufacturers often hesitate due to uncertainty about the benefits of transactional retail data and concerns about the organizational adjustments required to leverage such data effectively.

Furthermore, global regulatory changes, including GDPR and Apple's privacy policies, have introduced complexities in using data to comprehend the preferences of Saudi Arabian customers, as noted by our interviewees.

Challenges in increasing the impact of ad campaigns

Retailers in Saudi Arabia are still in the process of optimizing their digital advertising strategies. This is unsurprising considering that the majority of Saudi retailers continue to allocate a significant portion of their marketing budgets to traditional media. Our interviews suggest that this pattern is likely to change, with a shift towards increased digital advertising investments in the coming years, especially in the lifestyle and luxury retail segments. However, traditional advertising spending remains the predominant focus at present, creating a skills gap in the digital advertising capabilities of most Saudi retailers.

One noticeable outcome of this skills gap is the cautious approach adopted by retailers towards adopting new digital features. Despite being aware of the potential benefits of technologies like Augmented Reality (AR) and other advanced tools, retailers have been hesitant to integrate these tools into their advertising campaigns, as revealed in our interviews.

Recognizing the need for improvement, many retailers have entered into partnerships with third-party experts, often based in the UAE. Typically, these retailers compensate third-party providers based on performance metrics such as Cost Per Acquisition (CPA) and Cost Per Recurring Customer (CPRC). Metrics also play a crucial role in internal advertising operations, with some retailers mentioning the use of Return on Ad Spend (ROAS) dashboards and employing measures like Multitouch Attribution to closely monitor the customer journey.

Quality of post-purchase engagement

Saudi retailers are well aware of the significance of the post-purchase phase and recognize the delicate balance between follow-up and intrusion. As a result, many have opted for more straightforward post-purchase activities, such as assessing Net Promoter Scores. In response to the popularity of WhatsApp in Saudi Arabia, some retailers have chosen to leverage this app as a means of communication with their customers. Lifestyle retailers have adopted a multifaceted electronic communication approach, not limited to WhatsApp but also encompassing emails and SMS text messages to inform existing customers about new products. Lifestyle brands often incentivize customers with coupons in exchange for completing feedback forms, fostering a continuous and positive connection with consumers.

The post-purchase period holds particular significance for purely online sales scenarios, such as when the seller operates as a marketplace, a direct-to-consumer (D2C) platform, or a brand website. Some online retailers have embraced no-questions-asked returns policies, effectively eliminating any risk for the consumer. Digital-first players employ a variety of approaches to manage the post-purchase phase, ranging from technologically-advanced methods like the use of virtual sales associates (SAs) to more low-tech strategies. Among the latter, options include having well-trained staff call customers to understand the reasons behind returns or even having a delivery driver remain on standby outside a customer's residence while the customer evaluates the product.

Challenges at different points of the sales journey

OMNICHANNEL / ECOMMERCE While services such as Buy Online, Pickup In-Store (BOPIS) and endless aisle are being considered, their adoption remains limited. For many retailers, the challenge stems from the fact that the technology systems they use are older and weren't designed with omnichannel or eCommerce in mind. Saudi retailers believe that Order Management Systems (OMS) and Customer Relationship Management (CRM) tools might help them improve their omnichannel capabilities and dive more fully into eCommerce. Some of them are also exploring strategies that involve partnerships with digital-first players, such as marketplaces and quick commerce (qCommerce) platforms. The objective is to be able to make a sale wherever there's a customer who wants to buy. Loyalty programs, which often include incentives for additional sales, represent another area for improvement. While retailers recognize the significance of loyalty programs for eCommerce success, they have yet to fully adopt global best practices in expanding and optimizing these programs.

SUPPLY CHAIN Most retailers have implemented at least parts of Warehouse Management Systems (WMS) or Transport Management Systems (TMS) but still there is significant unrevealed potential in the digitization of supply chains. While the value of supply chain modernization is well recognized (including through improved inventory tracking and better data visibility), cost of transformation and implementation complexity remain as barriers. In terms of delivery logistics, most large retailers in Saudi Arabia handle e-commerce deliveries themselves. Although they know that deliveries aren't their core competency, they are concerned about third-party costs and service quality. Utilization of last-mile mobility services remains relatively limited, primarily due to the difficulties in guaranteeing Service Level Agreements (SLAs), particularly in large urban areas.

IN-STORE AND CUSTOMER EXPERIENCE Grocery and food service retailers are aware that self-service kiosks would improve the customer experience and lower costs at the same time. Yet where kiosks are in place at all, the investment is typically just beginning. Other solutions such as Pay & Go and mobile checkout are also in very early roll out stages. For lifestyle retailers, a key efficiency lever being considered is to smoothen the online purchase journey, through BOPIS, pickup towers, and in-store returns.

STORE STAFF EXPERIENCE The majority of the retailers don't regard store automation, or digitization for store staff, as priorities. Instead, store staff initiatives tend to be around upselling through mobile POS or Loyalty Personalization at the POS.

The way forward:
A digital playbook
for retailers

05

Our study shed light on the digital capabilities among retailers in KSA, revealing potential opportunities on the horizon. In this chapter we'll highlight opportunities in various domains: advertising, branding, e-commerce, supply chain, and in-store experience.
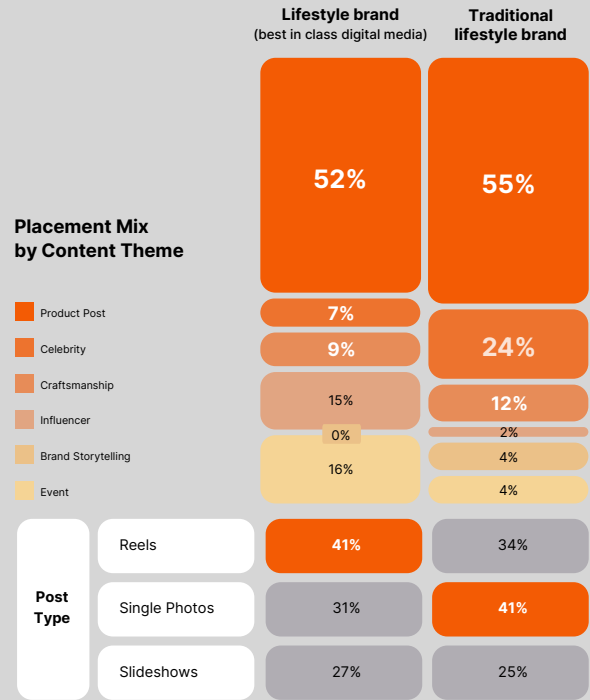
Figure 11: Lifestyle brands - Content type benchmark, US, % Mix

Advertising

Four primary areas for enhancing digital advertising among KSA retailers were identified:

SHIFTING MORE OF THE AD SPEND TO DIGITAL CHANNELS
On average, around 70% of retailers' media allocation is still directed towards traditional channels, which needs to be reconsidered in the light of the high level of digital advancement of Saudi customers. Global benchmarks indicate that even in sectors traditionally associated with brick & mortar retail, such as grocery, a minimum allocation of 40% to digital forms of advertising is the norm. The right allocation of budget for digital advertising (programmatic, social platforms, search, etc.) should depend on the target demographics of customers and on specific campaign objectives.

	Lifestyle brand (best in class digital media)	Traditional lifestyle brand
Placement Mix by Content Theme		
Product Post	52%	55%
Celebrity	7%	24%
Craftsmanship	9%	12%
Influencer	15%	2%
Brand Storytelling	0%	4%
Event	16%	4%
Post Type Reels	41%	34%
Single Photos	31%	41%
Slideshows	27%	25%

Source: Kearney analysis. Oct '22 – Mar '23

IMPROVING THE OVERALL DIGITAL MEDIA CAPABILITIES OF THE ORGANIZATION
Most merchants that sell through retail outlets in Saudi Arabia and most Saudi retailers themselves are relatively new to digital advertising. In the first phase of developing their digital media capability, they would do well to partner with external experts and use performance-based contracts. Indeed, many retailers already have such partnerships. The second phase is to shift most digital advertising activities in-house. There are three possible organizational models for overseeing digital ads internally: specialized vertical teams, centralized execution teams, and centralized digital teams. None of these structures can fit every situation. But if synergies and shared learnings across different marketing departments is a goal, there's a lot to be said for using a centralized digital team.

ACCURATELY MEASURING AND EVALUATING CAMPAIGN PERFORMANCE
Retailers should take a number of steps if they want to start measuring the effectiveness of their ad campaigns. One crucial initial step is to set up metrics for each stage of the purchase journey in order to compute their cumulative return on ad spending (RoAS). Knowing the customer acquisition costs (CAC) and the customer retention costs (CRC) are both crucial to this effort. And these costs can only be calculated if there are good data collection mechanisms. The mechanisms might include Customer Data Platforms (CDP) and Customer Relationship Management (CRM) systems. They also might include coordination mechanisms to enable real-time insights.

UNDERSTANDING THE STRENGTHS OF DIFFERENT ADVERTISING PLATFORMS
Different digital advertising platforms have varying degrees of effectiveness throughout the various stages of the purchase funnel. The suitability of formats on platforms like Snapchat and TikTok is particularly high when the primary objective is to enhance upper funnel metrics, like brand awareness. In contrast, YouTube and Meta may not be as well-suited for this specific goal. However, YouTube shines when consumers are in the 'tire-kicking' phase, seeking in-depth information about a product or brand. It is therefore advised to choose social platforms and ad formats based on the desired objective of an ad campaign. Fitting the format to the placement is key, and making a campaign suitable for 'digital' in general is no longer enough.

Branding

Innovation in the context of branding could be considered a dynamic mindset. Truly innovative brands prioritize continuous learning, consumer-centricity, and adaptability in their strategic decisions. In the age of digital shopping, some brands have lost sight of the bigger picture, fixating on immediate gains, swipes and conversions at the expense of long-term brand building. The essence of branding remains unchanged - prioritization of consumer needs and offering innovative experiences. What's evolving is what consumers expect from brands - seamless experiences, relevant brand values, and an understanding of their lifestyle. To stand out, retailers need to not just redefine how they show up but also stay true to the timeless principle of putting consumers first for enduring success. In today's world, this can be significantly enhanced with digital tools and some of the following best practices:

Ensuring visibility throughout the shopper's journey: Acknowledging that the journey is no longer linear nor always predictable.

Breaking out of the retail borders and tapping into 'retail-tainment': As entertainment options diversify in Saudi Arabia, customer leisure time is now being split over retail shopping and several other options. Brands need to consider strategic partnerships to reinstall the entertainment aspect in retail.

Showcasing new technologies: If a new technology can help promote a brand, retailers shouldn't hesitate to use it. AR, for example, has been shown to increase brand favourability by 13X when added to a campaign[6].

Adjusting the content to the region: For a brand to resonate with Saudi audiences, its content must be relevant for the KSA audience, which means taking account of language nuances and cultural sensitivities.

Leveraging influencers: Those with credibility and reach can help define a retailer for existing and new customers

Pursuing partnerships with complementary brands: The right relationships can be leveraged to help retailers extend their brand presence across diverse channels.

eCommerce

Traditional brick-and-mortar retailers in KSA have faced challenges in their e-commerce endeavors. To drive change in this landscape, retailers need to make advancements in three key areas.

OMNICHANNEL PURCHASE EXPERIENCE

To improve omnichannel purchasing experience, two preliminary initiatives can help move the needle. Implementing AI-driven trade marketing campaigns and an order recommendation engine can significantly enhance customer experience. The former customizes promotions based on customer data, location, and transaction history, while the latter utilizes AI/ML for personalized Next Best Offers, potentially increasing GMV/topline by 3.5-5% and boosting promotion effectiveness by 2-4x.

Further, price optimization using AI-based dynamic pricing ensures the best market prices across all online stores is provided to consumers. Similarly, optimizing delivery fees based on basket size, customer segment, and delivery type, alongside upfront payment options can help provide the most optimum delivery cost strategies.

CUSTOMER ENGAGEMENT

Retailers can improve customer engagement by implementing order status tracking and by rolling out diverse online payment options. Allowing people to make purchases through bank cards, e-wallets, Buy Now Pay Later policies, and cash on delivery can boost customer satisfaction and increase conversion rates by as much as 50%. For sustained growth, retailers need to radically simplify the checkout process, personalize upselling, and make repeat purchases easy. Customer engagement will also rise if the

online and offline shopping experiences feel interchangeable. The big barrier here is obviously the impossibility, with online, of being able to physically experience the product. This is where virtual try-ons (for furniture, apparel, luxury, etc.) come in; it may be possible to integrate them into online catalogs.

DIGITAL SALES CAPABILITIES

Sales capabilities uplift could start from advanced segmentation using online customer interactions and social insights to enhance customer needs understanding. It gives enough insights to adjust assortment based on customer specific requirements. With significant advances seen in Artificial Intelligence, digital sales can become significantly more effective as retailers' home pages can be customized for each specific customer to be more relevant.

As retailers become more sophisticated, they should employ analytics (including Revenue Growth Management analytics) to measure the effect of their promotions on SKU performance. And they should use churn-prediction algorithms to identify the customers at risk of leaving.

One of the crucial aspects to look at is related to loyalty programs. They need to be rapidly scaled and rolled out by all major retailers in the region. First, recruiting more customers to retailers' loyalty programs needs to be incentivized to have a significant database available. Secondly, right behaviors need to be encouraged through partnerships, rewards and other programs to the right segments to help grow topline. Finally, organizational skills need to be enhanced to use AI and data mining effectively to capture higher value from existing customers and reduce churn.
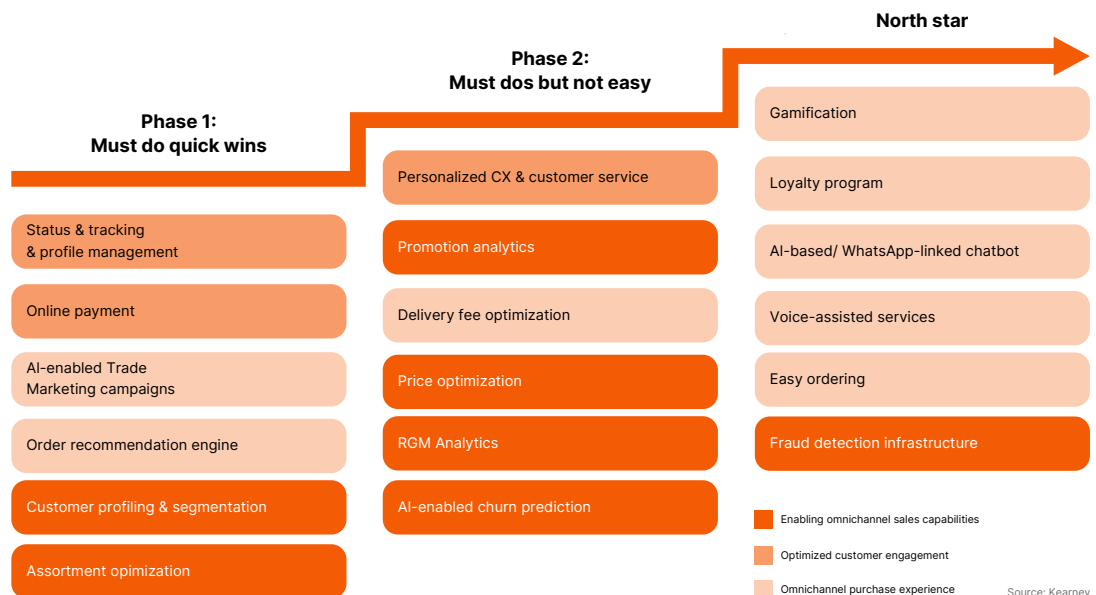

Figure 12: Key initiatives

Supply chain

Two fundamental elements support the development of supply chains for Saudi retailers aiming to embrace multichannel operations.

Firstly, there is a need for enhanced delivery and fulfillment capabilities. Collaborative optimization, which involves cooperation between retailers and suppliers, can play a pivotal role in this regard, offering numerous advantages. One significant benefit is its ability to model complex business constraints effectively. On the request for proposal (RFP) side, collaborative optimization enables the repetition of simple RFP events and the management of multi-region RFPs. Additionally, it can facilitate parametric bidding.

Furthermore, the integration of AI (Artificial Intelligence) and ML (Machine Learning) is essential to enhance fulfillment capabilities.

These technologies empower retailers to greatly improve their forecasting, planning, and replenishment practices.

Dynamic route optimization is a great way for logistics enhancement. In dynamic route optimization, a Transportation Management System automatically plans the route, selects the carriers, tracks shipments, and optimizes the transportation loads.

The demand for fast deliveries in an era of e-commerce also requires more efficient warehouses. Some retailers may want to do more process automation in their warehouses so that things like loading and unloading, order picking, and inventory storage happen with less human intervention.

Retailers can also make their warehouses more efficient through labor productivity increases. Cutting back on non-value-adding tasks--such as documentation and registration—can help with this. Warehouse Management Systems (WMS) can also increase labor productivity in warehouses.

Figure 13:
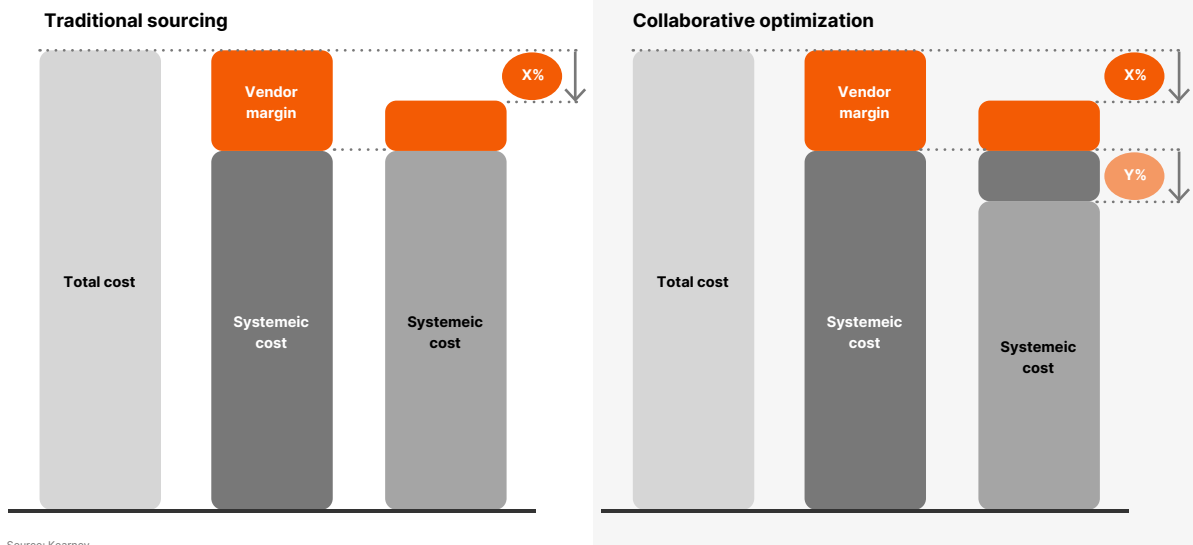Illustration of Kearney Collaborative Optimization

In markets where margins have already been negotiated down...

- ... systemic cost all interacting cost a supplier incurs to serve your demand, must be addressed ...
- ... requiring **close collaboration across the internal & external value chain...**
- ... by utilizing **advanced analytics to cope with the inherent complexity**

Source: Kearney

Warehouse Option	Role
Central Distribution Center (CDC)	-Store inbound inventory and replenish downstream DCs
Regional Distribution Center (RDC)	- Service downstream last mile DCs/stores and e-commerce operations
Micro-Fulfillment Center (MC)	- Fuel last mile delivery through proximity to urban center/dense customer population
Cross-Dock (XD)	-Flow-in/flow-out nodes to service stores in a geographic cluster
Pop-up Warehouse (Pop-up)	- Temporary warehouse extension option to accommodate highly variable demand surges or hard to reach locations
Store Hub / Buy Online Ship In Store (BOPIS)	- Enable omnichannel fulfillment through the multi-use of physical store
Dark Store	- Enable "click and collect" service from large warehouse or facilitate order fulfillment from ecommerce

Source: Kearne

In-store experience

Retailers all over the world are using technology to elevate customer experience and improve real estate productivity. By looking at what their global peers are doing, Saudi retailers can start to draw up their own in-store digitization roadmaps. Here are a few things to consider:

TECH ENABLEMENT IN THE STORE ITSELF
Several in-store technology improvements appear to be common-sense solutions at this point. These include the implementation of self-checkout technologies at the point of sale (POS) or through mobile devices to minimize waiting times. Furthermore, stores can consider investing in apps or hardware designed to assist customers in navigating the store layout, ordering out-of-stock items for home delivery, checking the availability of products on shelves and in back storage, providing personalized coupons upon check-in, and implementing sensor-based queue management systems. Additional automation tools can be tailored to specific types of retailers. Lifestyle retailers, for example, might explore the integration of smart mirrors into their stores. Retailers specializing in tech gadgets could consider providing personalized robot assistance to cater to their technologically-savvy customer base.

AUTOMATION FOR IN-STORE STAFF:
A customized POS system can enable the collection and analysis of data on sales trends, customer behavior, and product performance, providing valuable insights including on what to display where and what to promote. The POS system can prompt retailers to offer discounts on their own products/brands, to win business from competitors down the street.

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Credits

KEARNEY

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