OliverWyman | RLC GLOBAL FORUM

THE AFFORDABILITY IMPERATIVE

Capitalizing on Value-Led Grocery Retail in the GCC

CONTENTS

INTRODUCTION

As the grocery retail landscape in the Gulf Cooperation Council (GCC) becomes increasingly saturated, the need for differentiation has never been more critical. Retailers face the challenge of driving like-for-like growth in a market where consumer priorities are shifting dramatically.

This report delves into the transformative potential of value-led grocery retailing in the GCC, a strategy that not only addresses the pressing demand for affordability but also offers a pathway for retailers to disrupt the market landscape. We will explore the diverse spending power and evolving consumer behaviors that shape this dynamic environment, presenting key strategies for success. These strategies include crafting compelling value propositions, streamlining operations for enhanced cost efficiency, fostering dynamic growth, and tailoring approaches to meet local market needs.

Drawing on insights from global leaders in value-led grocery retail, this report provides actionable strategies while addressing the unique challenges faced in the GCC region. It concludes with four market-entry archetypes and a compelling call to action for retailers to capitalize on the burgeoning opportunities within value-led grocery retail. As the GCC market evolves, understanding and implementing these strategies will be essential for retailers aiming to thrive in this competitive landscape.

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THE OPPORTUNITY IN VALUE-LED GROCERY RETAIL: A STUDY OF SAUDI ARABIA

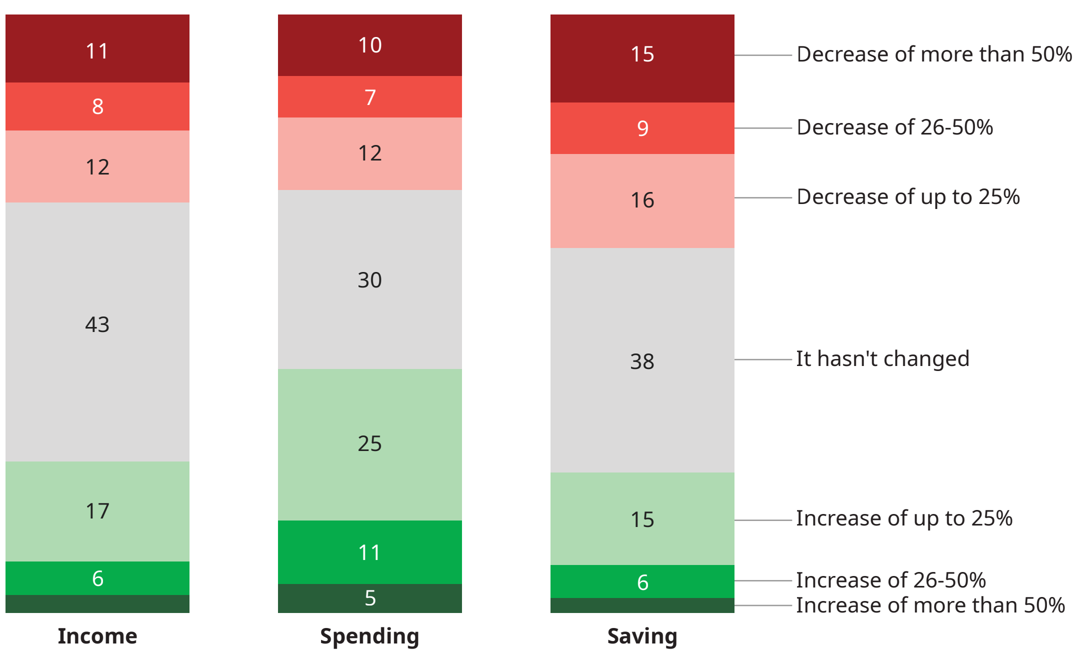
Given the shifting economic dynamics, it is crucial that retailers understand consumer spending power. In this section, we will do a deeper analysis of Saudi Arabia, the GCC's largest market. Oliver Wyman's 2024 Saudi Arabia Consumer Trends Survey highlighted that income levels for more than half of households in Saudi Arabia shifted throughout 2024.

The overall findings showed that disposable income is shrinking, and customers are seeing an increasing need to make conscious decisions with their money. Around 31% of households reported a drop in income during 2024, with 11% seeing declines of more than 50% (see Exhibit 1). Also, 40% of consumers reported a drop in savings, while only 23% managed to increase their savings. It is clear that consumers are navigating a landscape where affordability and value have become paramount.

When looking to save, consumers are shifting behaviors: 48% of those surveyed say they compare prices, while 46% actively seek stores offering lower prices.

Retailers must recognize these shifting behaviors and adapt their offerings to meet the evolving needs of a consumer base that is increasingly focused on maximizing value.

Exhibit 1: Household finances in Saudi Arabia in 2024 (%)
Question: How have your household finances changed over the past 6-12 months?



Note: This survey question was asked in December 2024
Source: Oliver Wyman 2024 Saudi Arabia Consumer Trends Survey

Additionally, the Oliver Wyman Customer Perception Map Survey (CPM) provides valuable insights into consumer behavior in Saudi Arabia, reinforcing the trend toward value-driven shopping. When it comes to choosing a primary retailer, ‘Value’, encompassing price and promotions, is the most significant factor for Saudi customers (51%). Furthermore, 80% of consumers reported regularly purchasing private-label products, primarily motivated by price considerations.

These findings highlight a significant shift in consumer preferences toward affordability, creating a robust opportunity for retailers who excel in terms of value-driven offerings.

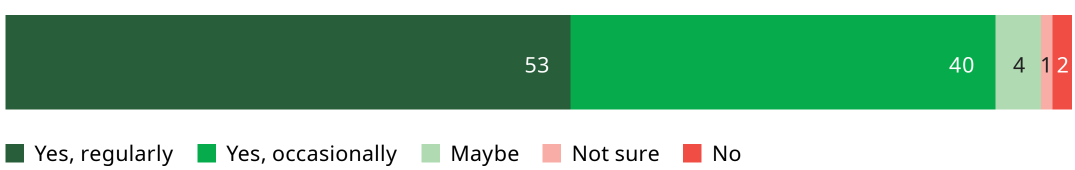
In a related finding, the CPM survey also reveals strong demand for discount grocery retailers in Saudi Arabia, with 68% of customers expressing interest in cost-effective shopping options (see Exhibit 2). Additionally, 97% of consumers familiar with international discount brands such as Aldi and Lidl say they would consider shopping at these stores if they were available locally.

This significant interest underscores a substantial market opportunity. The entry of established international players or new local brands that prioritize value-driven strategies could transform the competitive landscape, which could exert pressure on margins throughout the entire value chain.

Exhibit 2: Customer’s interest in shopping at a discount grocery retailer in Saudi Arabia (%)

Question: Would you be interested in shopping at a discount grocery retailer?

Question: Would you shop at Aldi or Lidl if they were available in Saudi Arabia?



Source: Oliver Wyman 2024 CPM Survey

LEARNING FROM GLOBAL LEADERS IN VALUE-LED GROCERY RETAIL

Successful international value-led grocery retailers offer critical lessons for navigating the evolving grocery retail landscape. These players thrive by leveraging three key strategies (see Exhibit 3):

1. An attractive proposition

Winning value-led grocery retailers maintain an unwavering focus on price, effectively attracting consumers who prioritize value for money. Their strong private-label offerings, bolstered by strategic product management and innovation, further distinguish them in competitive markets.

Success in the "Fresh" category is equally crucial, achieved through high product turnover and direct sourcing. Each retailer crafts its own unique formula for success — some emphasize planned-purchase, brands and larger store formats, while others thrive with limited assortments, smaller stores, and private-label products.

2. Streamlined operations

Operational efficiency is core to the success of these retailers. They focus on reducing operating costs through end-to-end optimization, especially in the private-label and fresh categories. Winning retailers cultivate a "discount mindset" among highly motivated teams, fostering a culture of cost-efficiency.

3. Aggressive scale-up

Rapid growth is a hallmark of successful discount retailers, often achieved through a light capital expenditure (CAPEX) model. These players combine fast scaling with tailored market adaptation, enabled by deep local market knowledge. Reinvesting operating profits back into the business fuels continual growth, solidifying market leadership.

Exhibit 3: Proven success factors for European value-led grocery retailers

Attractive Proposition	Leverage high volume through aggressive pricing Offer a high-quality limited range with high private-label share Utilize high buying power through high volume per Stock Keeping Unit (SKU)
Streamlined Operations	Keep things as simple as possible Achieve end-to-end excellence Maintain high labor productivity
Aggressive Scale-Up	Operate with negative net working capital Reinvest operating profits in rapid store expansion and attractive proposition Scale efficiently with standardized models, low CAPEX stores and high RoCE (return on capital employed)

Source: Oliver Wyman analysis

THE TWO-STEP APPROACH: VALUE, THEN ENHANCING OFFER

Now that we have outlined the three key strategies employed by global leaders in value-led grocery retail, let us delve deeper into their two-step approach for building value and then enhancing their offerings.

These retailers share a singular priority: an unwavering commitment to delivering value, which is essential for attracting cost-conscious consumers. They typically begin by establishing a strong value perception, focusing on low prices, a basic yet adequate assortment that meets core needs, and simple, low-CAPEX store formats. This foundational strategy ensures operational efficiency while effectively capturing consumer interest.

Once value perception is firmly established, they then shift their focus to enhancing offer perception (see Exhibit 4). This transition involves improving product quality, expanding product assortments, upgrading store aesthetics, and enriching the overall shopping experience to better meet the diverse needs of consumers.

This two-step approach allows retailers to secure market share through value dominance and continuously increasing pressure on incumbent retailers by gradually evolving into a more comprehensive, consumer-centric offering.

Exhibit 4: The two-step approach to value-led expansion

Step 1: Move East
Improve value perception

- Strong focus on value — lowest prices
- Basic assortment, but covering all needs
- Basic stores, low CAPEX
- In-Out (non-food) promotions driving traffic

Step 2: Move North
Improve offer perception

- Improved assortment, signs of localization
- Improved fresh quality and experience (e.g., bake-off)
- Improved store look-and-feel
- Taking over the full basket and expanding target customer set

Source: Oliver Wyman analysis

DIFFERENTIATION BETWEEN RETAILERS

While global value-led grocery retailers share a strong commitment to delivering value, they also differentiate themselves through unique strategies across four critical dimensions: pricing, product assortment, operational efficiency, and customer engagement. Here, we will analyze the approaches of some key players across Europe and the United Kingdom.

Pricing

Pricing strategies remain a key differentiator. Retailers such as Aldi and Lidl focus on an Everyday Low Pricing (EDLP) model combined with attractive promotions, while Colruyt employs a lowest price promise, ensuring no customer can buy the product cheaper in the catchment area, including promotions.

Product Assortment

Product assortment also sets retailers apart. Aldi and Lidl excel with high-quality private-label products that deliver significant savings while allowing greater control over quality and pricing. In contrast, retailers like Netto emphasize branded products, leveraging low prices and attractive promotions to appeal to consumers.

Operational Efficiency

Operational efficiency is central to maintaining competitive pricing while ensuring profitability. Each retailer approaches this differently: Biedronka uses modern distribution technologies and local sourcing to reduce costs; Colruyt and SOK incorporate automation and advanced analytics to optimize inventory management; while Mercadona enhances end-to-end efficiency through vertical integration.

Customer Engagement

Customer engagement strategies are critical for building lasting relationships. Loyalty programs, digital tools, and promotions play a growing role in today's grocery retail market. For example, Lidl's Lidl Plus app has loyalty features that work to enhance customer experience and drive sales.

THOUGHTS ON WINNING VALUE-LED GROCERY RETAIL MODELS IN THE GCC

While many principles from Western value-led models are relevant and can provide valuable inspiration for GCC retailers, success in the GCC requires careful consideration of regional dynamics. Here are some factors that make the region so unique and nuanced:

- The region's clientele is particularly culturally diverse, especially in the UAE (89% expatriate population spanning 200+ nationalities[1]) and Saudi Arabia. Additionally, significant income inequality shapes shopping habits. Notably, income disparity in the GCC is among the highest in the world.[2]
- The GCC market is unique due to the prevalence of baqalas and traditional markets, which offer low but often untransparent pricing alongside strong quality and personalized service. Modern trade outside of these traditional grocers currently accounts for 83% of FMCG value in the UAE and 52% in Saudi Arabia.[3]
- Price levels vary widely across the region, requiring a differentiated pricing approach while presenting opportunities for centralized sourcing platforms to optimize costs.[4]
- Consumer behavior reflects a strong preference for service-oriented shopping, with 56% of UAE respondents and 33% in Saudi Arabia saying they are motivated by speed and convenience when buying groceries both in store and online.[5]
- Another critical factor is the underdeveloped private-label market, driven by high trust in established brands and supply chain gaps. Private-label penetration remains low, standing at just 3% in the UAE and 1% in Saudi Arabia, presenting a large opportunity.[6,7]

Understanding these nuances is essential for successfully navigating the GCC's grocery retail landscape.

Certain global success factors align well with the region, while others require stronger adaptation. See Exhibit 5 for an overview of the applicability of these factors to the GCC context.

1 Global Media Insight | UAE population statistics, 2024
2 WID — World Inequality Database
3 Kantar report 'Understanding the Middle East Shoppers', 2024
4 Milk price: Comparison GCC/ME vs. Europe based on Numbeo, 2024
5 Oliver Wyman Customer Perception Survey KSA and UAE, 2024
6 issuu, GDONews. Statista. Market share of private-label brands worldwide in Q1 2023, by selected territory, 2023
7 Nielsen

Exhibit 5: Success factors of value-led grocery retailers — GCC Context

	Value-led grocery retailers success factors	Adaptability to GCC context	
Attractive proposition	Leverage high volume through aggressive pricing	●	High relevance due to price-sensitive market
	Offer a high-quality limited range with high private-label share	◑	GCC private-label ecosystem still in infancy, lowest income segments willing to compromise
	Utilize high buying power through high volume per SKU	●	High relevance to keep prices low
Streamlined operations	Keep things as simple as possible	●	High relevance to keep cost low
	Achieve end-to-end excellence	◕	Overall supply chain still very inefficient, costs often hidden, huge opportunity for differentiation
	Maintain high labor productivity	◔	Labor cost still low in many GCC markets
Aggressive scale-up	Operate with negative net working capital	●	High relevance of enhanced cash flow and RoCE
	Reinvest operating profits in rapid store expansion and attractive proposition	●	High relevance to gain economies of scale
	Scale efficiently with standardized models, low CAPEX stores and high RoCE	●	High relevance for NOPAT RoCE

Source: Oliver Wyman analysis

When comparing the profit and loss (P&L) statements of grocery retailers in Western countries to those in the GCC region, it is evident that P&L management poses significant challenges in the GCC. Currently, some cost factors are still less significant than in Western markets, as detailed in Exhibit 6, and many players in the region lack the scale necessary to optimize gross margins.

Despite the difficulties associated with value-led grocery retail in the GCC today, the precedents set in European markets demonstrate that the landscape can shift rapidly once value-driven concepts begin to gain traction.

Exhibit 6: Profit and Loss in grocery retail in Europe and the GCC

	Europe			GCC		
	Traditional supermarket	**Traditional hypermarket**	**Value-led**	**Traditional supermarket**	**Traditional hypermarket**	**Value-led**
Sales productivity ($/sqm/year)	4,000-7,000	3,000-6,000	8,000-12,000	2,000-4,000	3,000-6,000	2,000-4,000
	Western, value-led grocery retailers have much higher sales productivity ($/sqm), pattern still to emerge in GCC					
Net operating profit after taxes (NOPAT) RoCE	8-12%	8-12%	12-15%	10-15%	15-20%	8-12%
	Value-led grocery retailers have minimal capital investments, together with higher profitability leading to higher NOPAT RoCE					

Sales	100%	100%	100%	100%	100%	100%
Costs of goods sold	(67-71%)	(72-76%)	(76-80%)	(68-72%)	(73-77%)	(78-82%)
	• Higher % of COGS for value-led given lower prices • Contains significant hidden cost for traditional super- and hyper-markets in the GCC					
Gross margin	29-33%	24-28%	19-24%	28-32%	24-28%	18-22%
Distribution	(2-3%)	(2-3%)	(1-2%)	(<1-2%)	(<1-2%)	(2-3%)
	• Lower % distribution in the GCC as largely covered by suppliers • In the GCC higher % distribution for value-led as no direct delivery					
Retail Opex excl. store labor costs	(10-14%)	(7-11%)	(5-9%)	(7-11%)	(5-9%)	(4-8%)
	Lower % retail opex for value-led stores, driven by lean operations					
Store labor cost	(10-14%)	(8-12%)	(6-9%)	(7-11%)	(4-8%)	(4-7%)
	• Lower % store labor cost in the GCC as labor less expensive in the GCC • Lower % store labor costs for value-led stores, driven by labor productivity					
Central cost	(3-4%)	(3-4%)	(2-3%)	(3-4%)	(3-4%)	(2-3%)
	Comparable across players, slightly lower for value-led due to more focused overhead spend, higher standardization and fewer suppliers					
EBIT	1-2%	1-2%	2-4%	5-9%	6-10%	2-5%
	EBIT % is still substantially higher in the GCC for traditional super- and hyper-markets, expected to decrease if value-led grocery retailers gain traction					

Source: Oliver Wyman analysis

HOW TO SET UP SUCCESSFULLY IN THE GCC

KEY DIMENSIONS FOR BUILDING A WINNING MODEL

To succeed as a value-led grocery retailer in the GCC, it is essential to focus on several key dimensions. Offering an attractive proposition requires careful decisions on pricing, product assortment, promotions, loyalty programs, and store formats to appeal to price-sensitive consumers.

Streamlined operations are equally important, with an emphasis on sourcing strategies, end-to-end operational efficiency, labor management, and logistics. The integration of digital technologies can further enhance operations and customer engagement, which ensures competitiveness in the market.

Finally, scaling effectively and adapting to local markets involves developing a clear brand message, optimizing store designs based on demographic insights, and strategically planning geographical expansions.

By addressing all the above dimensions, retailers can build a model that meets market demands, fosters customer loyalty, and supports sustainable growth.

VALUE-LED ARCHETYPES

Oliver Wyman identifies four potential archetypes that can be used to successfully establish a value-led grocery retailer in the GCC (see Exhibit 7):

1. Neighborhood discount model: This model focuses on offering essential grocery items at low prices in small, easily accessible stores, catering to the everyday needs of nearby residents. Example players include BIM and Kazyon.

2. Basic discount model: Characterized by a no-frills shopping experience, pragmatic store formats, efficient operations, and limited private-label and fresh offerings at attractive prices. Example players include Netto and Biedronka.

3. Mature discount model: Built on a strong value and operational efficiency foundation, this model upgrades its proposition with differentiated private-labels, fresh product offerings, and more attractive stores. Example players include Aldi and Lidl.

4. Full-basket value-led model: This model offers comprehensive grocery solutions with a broad product assortment at competitive prices, encouraging bulk purchases and fostering loyalty through value-driven offerings. Example players include Colruyt and S-Market.

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The neighborhood discount model is often the most scalable due to its simplicity and accessibility, followed by the basic discount model.

In contrast, the full-basket value-led model is more complex to establish but leads in profitability, followed by the mature and basic discount models, with the neighborhood model being the least profitable in the long-run.

Exhibit 7: Potential archetypes for the value-led grocery retailer setup

Neighborhood discount model	**Basic discount model**	**Mature discount model**	**Full-basket value-led model**
Focuses on providing essential grocery items at low prices in local, easily accessible stores, catering to the everyday needs of nearby residents	Focusing on no-frills shopping experience, efficient operations, limited private-label and fresh products at overall very attractive prices, very pragmatic stores	While true value and an efficient operating model stays core to the DNA of the business, there is an upgraded proposition through differentiated private-label and fresh products and attractive stores	Comprehensive grocery solutions with wide product assortment at competitive prices, encouraging bulk purchases and loyalty through value offerings
Examples BIM, Kazyon Market	**Examples** Netto, Biedronka	**Examples** Aldi, Lidl	**Examples** Culruyt, S-Market

Large, low-income markets (Neighborhood and Basic discount models)

More mature GCC markets (Mature discount and Full-basket value-led models)

More attractive in terms of scaling ← → More attractive in terms of profitability

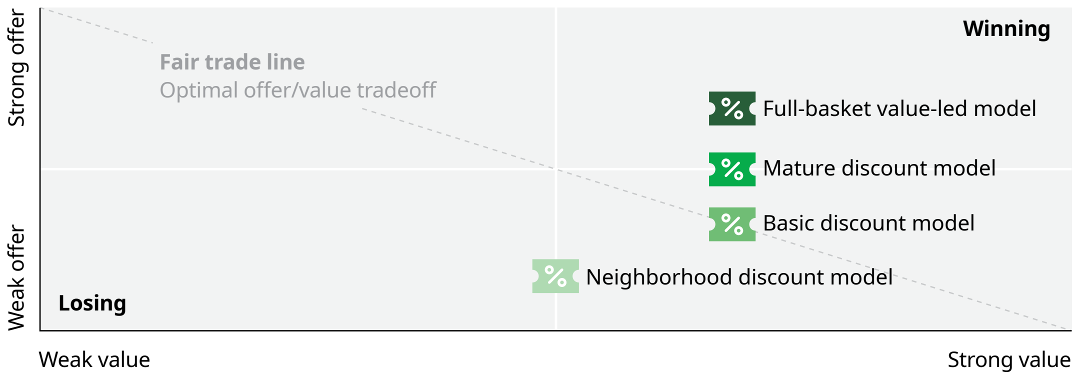
Source: Oliver Wyman analysis

The archetype or model that a retailer sets as a target must align with the specific market context. For example, large low-income markets may favor simpler models, while more mature markets such as the UAE and Saudi Arabia might support more sophisticated approaches (see Exhibit 8).

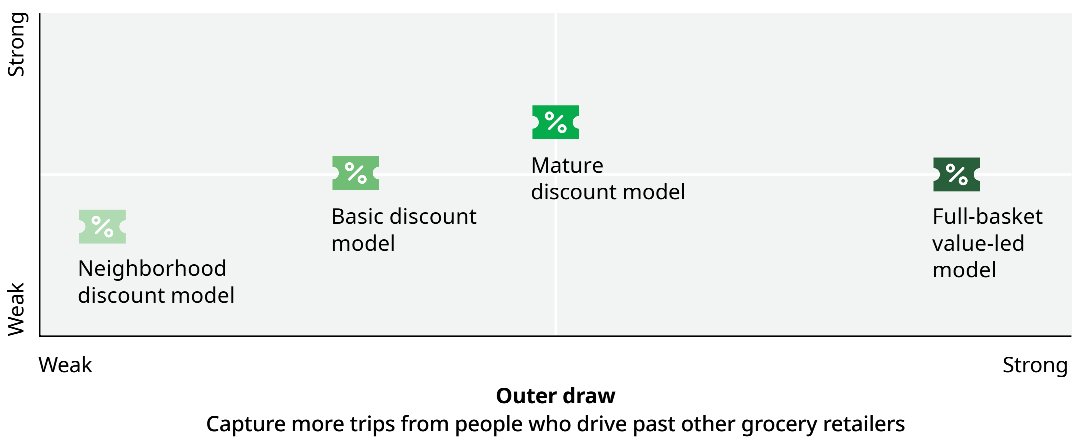
Ultimately, retailers must choose their model carefully and consistently apply the strategy across dimensions such as store size, pricing, promotions, product range, private-label share, and fresh products.

Exhibit 8: Mapping value-led grocery retail — value, offering, and customer capture

Customer Perception Map



Inner draw
Capture more trips from people closest to you



Source: Oliver Wyman analysis

CONCLUSION

Unlocking the potential of value-led grocery retail in the GCC requires a strategic, consumer-focused approach that resonates with the region's diverse demographics. By drawing insights from global leaders and adapting successful strategies to the unique characteristics of the GCC market, retailers can effectively meet the rising demand for affordable, value-driven shopping experiences.

As the grocery retail landscape continues to evolve, now is the critical moment for retailers to redefine value in ways that align with the needs and preferences of consumers across the region. Those who act decisively and invest in the right strategies will not only thrive but also set new standards for value-led grocery retailing on a global scale. The opportunity is significant — who will seize it first?

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