

HOT MARKETS: SAUDI ARABIA AND CROSS-BORDER E-COMMERCE



VALÉRIE KAMINOV – BIOGRAPHY

Having spent over twenty years working with a vast array of luxury, premium and niche beauty brands and fragrances, Valérie has extensive knowledge and practical experience of their supply, distribution and retail, pertinent commercial practices and consumer habits on a global and local basis.

Her expertise has been highly valued by multi-national organizations, SMEs, start-ups, privately owned companies and financial investors.

Certified in Corporate Governance from INSEAD Business School, Valérie has the remarkable ability to successfully set the company's strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile.

As a qualified Non-Executive Director who was awarded the prestigious Financial Times Post-Graduate Diploma, Valérie Kaminov is highly trained in corporate governance and is an experienced NED and Director enabling her to have a holistic understanding of boards.

She advises both as a consultant and an NED. Valérie's experience earned her a reputation with major players in the industry who hired her to establish them globally.

Her expertise in brand evaluation, acquisition due diligence, risk assessment and commercial growth has been highly valued by Private Equity Funds, multi-national organizations and financial investors.

She is also dedicated to passing her knowledge along through a range of conferences and events.

Valérie has been a guest speaker for the not-profit organisation, CEW, at their Mentoring Services where leading executives offer insights into beauty industry issues and inspiration for professional growth.

At the International Manufacturers & Distributors Forum (IMF) Master of Ceremony, Valérie organises a very unique conference; A global European gathering for manufacturers, brand owners and distributors to come together and discuss challenges faced by their business and the industry by giving the attendees unlimited networking opportunities.

The future success of a business depends in part on its ability to continue to expand in the developing markets. There currently isn't a larger market than Saudi Arabia in the Middle Eastern region. Despite the deceleration of economic activity over the last years and tighter liquidity conditions, the young and dynamic population and strong economy make Saudi Arabia a lucrative destination for beauty brands. As more and more women gain the ability to join the workforce, the requirement to look presentable at work has further boosted the sales of beauty and personal care products in the region. Expanding into Saudi Arabia is a major opportunity that businesses simply cannot ignore. However, one must keep in mind that it can also be a major battleground. Needless to say that business will face obstacles whether it be financial, importation/exportation, partnership, local laws on business incorporation and/or cultural differences. With the proper support and market knowledge, your company could be very successful in this highly challenging market. Below we have put together a few tips that will help you and your business navigate in clearer waters and avoid making common mistakes and experimental market entry in Saudi Arabia.

THE SAUDI ARABIAN BEAUTY MARKET, A QUICK OVERVIEW

The Saudi economy has been negatively affected due to falling oil prices and conflict with Yemen, leading to a decrease in purchasing power. Even though consumers shifted to cheaper products, the government helped to increase the employment rate of Saudi men and women prompting a recovery of demand for beauty and personal care products. In the coming years, employment among Saudis is expected to steadily increase, mainly due to the government's Saudisation policy that calls for the replacement of foreign workers with nationals. Saudi men are therefore becoming more inclined to invest in a grooming regime, as a well-kept appearance is increasingly associated with affluence and career success. Since most Saudi men wear the dishdasha, a traditional male robe, emphasizing on taking care of their faces and beards is essential.

Home to a young, tech-savvy population highly conscious of its appearance, Saudi Arabia is the largest and most attractive market for beauty and personal care in the Middle East. Here, looking healthy and "alluring" is crucial as it is an integral part of an individuals' personality. Women are becoming aware of their looks and wish to maintain a youthful and elegant look. Cosmetics and beauty products are no longer restricted to being used on special occasions but are becoming a prominent part of women's daily regimen. Hence, beauty and personal care products have emerged as high utility products.





Young and tech-savvy women are becoming aware of their looks and wish to maintain a youthful and elegant look.

The Kingdom is deeply religious, conservative, traditional, and family oriented. Traditional values are at the forefront of society, hence, translated into legal prohibitions apply. Saudi Arabia law requires that all citizens be Muslims: neither citizens nor expats and tourists have the right to freedom of religion. When leaving their homes, women are required to cover their body with black cloaks and veil their faces (invisible in most public spaces). As surprising as it might be, Saudis spend more on hair and cosmetics per capita than almost any other women in the Middle East. Backed by growing trends of workplace gender equality across the Kingdom, women are gaining prominent importance in corporations. Affluent and beauty-conscious women spend an average of US\$3,800 a year on cosmetics and spend more on hair and cosmetics per capita than almost any other women in the region. As a result, the country's radical clerics denounce them for "distorting God's creation" and succumbing to temptation. The Saudi culture is evolving rapidly and women are enjoying more freedom than ever before: one of the goals of

the government's Saudi Vision 2030 economic development policy is to increase women's employment from 22% to 30%. In 2012, the late King Abdullah implemented the decision to allow women to work in cosmetic and lingerie stores. This historic decision has paved the way for thousands of Saudi women to work. The decision was largely supported by the Saudi public, though ultraconservative clerics criticized the measure and said allowing women to work in stores would open the door to "lasciviousness" and "sin". Previously, women who wanted to buy makeup or lingerie in Saudi Arabia would have to purchase these personal and intimate products from male staff. At the time, women who wanted to try on a new foundation couldn't lift their veils in front of the salesman or allow him to touch their skin due to the country's Islamic gender segregation. To further satiate the desires of young generations, Prince Mohammed decided to lift the ban on women driving, allowing women to more easily get to work instead of having to rely on male relatives or costly personal drivers. Until 2016, Saudi women were required to be accompanied by a man or at least get their permission to book a hotel or spa resort. This could have a positive repercussion on bookings of treatments and boost sales of skincare products. The recent sweeping reforms have increased women's independence. Some Saudi women even admit the reason why their husbands agreed to let them work was because they see how much women love make-up and how

much they spend on it. Women splurge on beauty products and sometimes spend more than half of their monthly salaries on make-up. Unlike most Western countries where a more natural look is currently en vogue, women across the Arab Gulf region often lean towards brighter and catchier make-up and accessories trends to offset the utilitarianist aspect of their black veils. In the past, upper class Saudis followed beauty trends by travelling abroad. Today, social medias allow all Saudi women to discover the latest look, with many craving the appearance of western movie stars or Arab pop divas. This being said, the macho culture still prevails. Many public entertainment locations remain forbidden to women. Weddings, engagement parties and baby showers are the opportunity to dress to the nines to impress each other. Men like to be pampered and salons are popular. However, women are key purchasers for male grooming products. Needless to say, that marketing, product formulation and retail strategy needs to be targeted at women buying products for men, as well as men buying for men. As Saudis are highly conscious about the ingredients of the products they use, there is as significant demand for ethical and natural cosmetic products. Such a demand has pushed the international and local market players to develop innovative products in order to sustain market competitiveness. Moreover, there is a growing demand for Halal beauty products. As the region is majorly constituted by Muslim population, these products have gained huge popularity.

It is however important to mention that not only Muslim consumers are interested in Halal beauty products. The latter are in fact becoming an increasingly attractive proposition to consumers, being free from animal by-products and alcohol. The market for Halal cosmetics in Saudi Arabia is predicted to take off over the next five years due to:

- The increased supply of Halal certified products.



Unlike most Western countries where a more natural look is currently en vogue, women across the Arab Gulf region often lean towards brighter and catchier make-up and accessories trends

- The rising consumer awareness of the benefits of halal products.
- The increasing willingness to spend more on Halal products.
- The region's thriving Islamic population.
- The increased demand for beauty products that adhere to Islam's preferences and laws.

The main issue beauty product manufacturers will need to address are the use of raw materials derived from pork or human enzymes as the use of a product derived from pork is not allowed by the religion.

Halal and vegan beauty products market are expected to grow at a CAGR of at least 15% by 2020. Coupled with rising disposable incomes (both from men and women), Saudi Arabia has been seeing a greater access to such products, a rising consumer awareness and willingness to pay more for high quality halal and/or vegan products. Not only are big groups including L'Oréal, Unilever, Procter & Gamble and Estée Lauder tapping into this rapidly growing niche market but local strictly Halal brands are slowly becoming fierce competitors.

The biggest player in the beauty and personal care industry in Saudi Arabia is Binzagr Lever (Unilever Arabia).

The group benefits from a rich brand portfolio and a long presence in the country. On the Saudi market, competition is said to be fierce mainly due to huge marketing activities (e.g. offers, discounts, promotions) and NPD. With almost half of its population (45%) under the age of 25, the culture of social media and advertising is strong. When making a purchase decision, Saudi women rely on social networking sites, peer referrals, word-of-mouth and client recommendations. They love to trade beauty tips on Twitter and teenagers gather for "make-up nights". Last year alone, Saudi women spent US\$2.4 billion on cosmetics, among the highest per capita sum in the world. As a result, brands use blogging to boost their sales. According to Euromonitor, Saudi Arabia possesses the largest penetration of Twitter users in the world

and the highest per-capita consumption of YouTube. Other popular social media platforms include Snapchat and Instagram.

THE SAUDI ARABIAN CROSS-BORDER E-COMMERCE

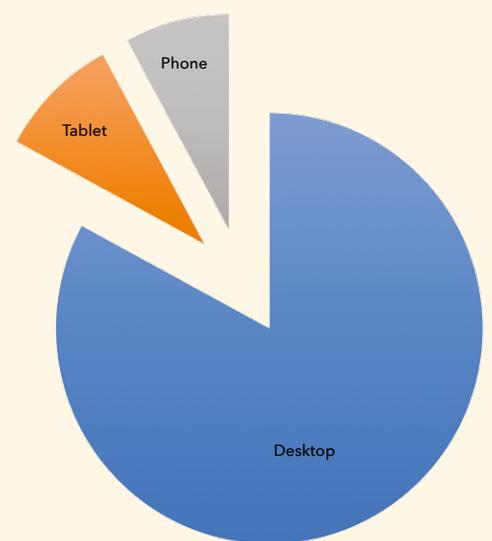
Since 2017, beauty specialists' retailers have encountered more and more difficulties to expand their retail space partly due to increasingly high rental prices for premium locations in shopping malls. On top of this, the economic uncertainty and prolonged period of cheap oil prices have led Saudis to become increasingly more cautious of their spending and limiting their purchases.

While more likely to wait for sales and value deals for bigger purchases, the lipstick effect will help the beauty and personal care industry grow steadily. At International Luxury Brand Consultancy, we know that expanding into a new market can be a tough decision, especially if you are navigating in unknown waters. We work with our clients so that we can provide them with clarity backed up with years of experience, expertise and knowledge. With many years of experience under our belt, we know exactly what are the different challenges that your business will have to face when expanding into Saudi Arabia and we can help you overcome them. The market is highly complex and restricted by strict and heavy Halal regulations. Cultural and religious perceptions implemented by Saudi's religious Kingdom's police prevent women from using makeup because the latter is considered ostentatious and sinful.

The market is affected by unclear regulations. Before being able to operate in the region, a company must visit a great number of entities. There are no unified regulations in the Gulf countries making deliveries slow and expensive. Product registration is complicated (administrative problems) and takes a long time (up to 6 months). The registration process is therefore considered as a major barrier for companies seeking to operate in the

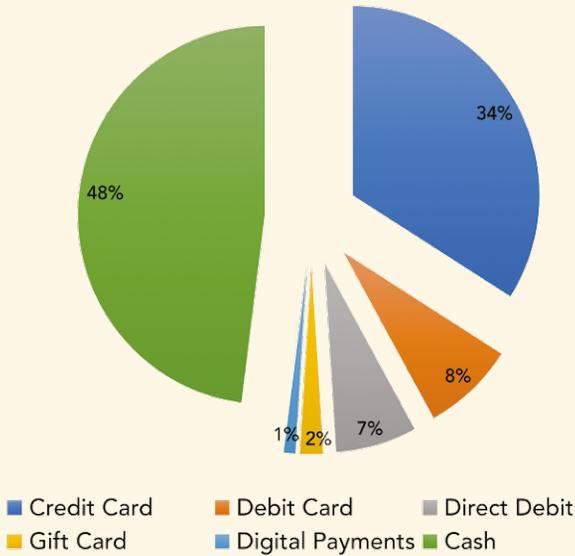
Saudi market. In the U.A.E., registering cosmetics is straightforward; you can do it yourself or via a registration company and it takes about 45 days. However, in Saudi Arabia, it's trickier because you need to have a local agent so that you don't get fooled. When the product arrives to customs, you could pay different amounts depending on who's there.

While Saudi Arabia's online shopping industry remains relatively small compared to the one of other countries like China, things are rapidly changing. Historically, Saudis were reluctant to buy online due to lack of awareness of online platforms, limited offerings and trust issues (fraud and cyber-crime). The internet is increasingly becoming one of Saudi Arabia's preferred destination for sales, e-commerce being advantageous for both the customer and the business owner. In fact, when a foreign business wishes to expand into the Saudi Arabian market, there are different business models available, the easiest one being selling through third party e-platforms. In other words, being able to reach the local online shopper without having a registered business in Saudi Arabia. With more than 13 million people shopping online last year alone, Saudi Arabia is slowly catching up. According to A.T. Kearney, the e-commerce market in the Gulf region is forecasted to rise from USD 5.3 billion to USD 20 billion by 2020, with Saudi Arabia accounting for 42% of the total.



Preferred Methods on Online Shopping in Saudi Arabia

Both desktop and mobile internet penetration is expected to grow from approximately 71% to 75% within the next three years with e-commerce user penetration expected to grow from 51% to more than 70%. The vast majority of Saudis online shoppers still prefer to buy via desktop (63%) in stark contrast to the amount of tablet (7%) and mobile (6%) shoppers. Cash on delivery remains the preferred paying option when shopping online.



Preferred Methods of Payments for Online Shopping in Saudi Arabia

While venturing out into the Saudi Arabian market through cross-border e-commerce appears to be an easy solution, there are several challenges that businesses should keep in mind:

- Partnering with a local provider will facilitate the delivery of goods and provide strong customer support.
- Having a thorough understanding of local rules, regulations and laws is essential to avoid any faux pas.
- Having a good understanding of local culture, customer preferences, tastes and expectations will help your business in building a strong brand awareness and long-lasting relationships.
- Working out a cost-effective and rapid delivery for shipment will increase customer satisfaction.
- Factoring in any possible duties and taxes involved in cross border e-commerce will help you set the right prices for your products.

Entering the Saudi Arabian market can be extremely tough for many reasons, one being the highly complex political and financial structure of this market and in turn, the country. Having a market restricted by Halal regulations, implementing cultural and religious perceptions, preventing women from using makeup and/or letting them wear it only to a certain level not interpreted as ostentatious, lacking a high proliferation of mass market brands and having an insufficient participation of women in the workforce – are few of the major obstacles businesses will have to face when entering the Saudi beauty and personal care market. Saudi Arabia represents, nonetheless, an exciting opportunity that brands just simply cannot and should not ignore. As one of the largest beauty markets in the world (USD 5.7 billion) endorsed by an affluent clientele, Saudi Arabia has become an exceptionally attractive market for beauty companies to introduce their new products and will continue to grow up to USD 6.9 billion in 2021, making it a key growth market. The lion's share of sales in 2016 went to fragrances (USD 1.7 billion), followed by haircare (USD 697 million), skincare (USD 635 million), and colour cosmetics (USD 503 million). Fragrance will remain the best-selling beauty item in the Kingdom by far in the next few years, according to Euromonitor. Skin care products are expected to be the fastest growing segment during the forecasted period. Dermocosmetics is slowly emerging, appearing in almost all beauty and personal care categories, including baby and child-specific products, color cosmetics and even sun care products, providing consumers with enhanced degrees of product quality and advanced ingredients, but at a higher price compared to regular cosmetics. The women cosmetics market is anticipated to grow at a CAGR of over 11% during 2017-2022, on account of growing trend of halal cosmetics, booming retail industry and easy availability of cosmetics on online channels. The diverse market allows companies to offer a variety of products across different price spectrums. While the market for

luxury products has a large clientele, value-for-money brands also do benefit from a strong presence. Beauty products are no longer restricted to being used on special occasions but are gaining prominence as part of women's daily regimen. Increasing desire among Saudi Arabian women to look alluring represents a gold mine for foreign brands wishing to expand their business. Increasing urbanization, growing per capita spending on cosmetics, continuous product innovations and aggressive marketing are positively influencing the market and making foreign companies salivate at the idea of penetrating the market. That comes as the Middle East and Africa overtakes Latin America as the world's fastest growing beauty and personal care market, with its estimated 4.8 percent annual growth rate between 2014-2019 almost twice the global average of 2.6%. However, foreign companies need to understand from the very beginning that Saudi Arabian customers' values and tastes greatly differ from Western ones and therefore they will need to adapt their products and services to meet the specific needs of the Saudi Arabian consumers, usually more conservative. The major socioeconomic reform negatively affecting the beauty and personal care consumer base in the country is and will continue to be Saudisation. Expats will continue to leave the country. As locals continue to spend more, however, it seems very likely that local consumers will broaden their patterns of consumption which are currently limited by the quality and variety of goods and services at their disposal. The Saudi Arabian population has an ever-growing interest and demand for luxurious and sophisticated brands. The country remains a pioneer in experimenting with digital services and customer engagement. It is therefore essential to target the Saudi Arabian affluent clientele. Companies should try as much as possible to benefit from help and support from Middle Eastern organisations in order to avoid making common mistakes. With the right strategic plan and the right local partner, Saudi Arabia could be the next stop on the agenda for your brand.