

How Middle East and Africa retailers can accelerate e-commerce: Imperatives for now and the next normal

To offset the impacts of the COVID-19 crisis, retailers in the Middle East and Africa must act in three key ways: sustain, adapt, and build.

This article is a collaborative effort by McKinsey's global Retail Practice, including Pavlos Exarchos, Nora Guerrouache, Abdellah Iftahy, Mahsa Nami, Nitasha Walia, and Ahmed Youssef.



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The COVID-19 pandemic is first and foremost a human tragedy, but it has also had a significant impact on the global economy. In the Middle East and Africa (MEA), extensive lockdowns have led to changing consumer attitudes and a shift to online channels for activities such as shopping, meeting, and learning. People are also spending less, which reflects more cautious attitudes and direct hits to income.

During lockdown, consumers across the Gulf Cooperation Council, South Africa, and Turkey focused their online spending on groceries, personal-care products, and household supplies. Sales in discretionary categories, such as apparel, footwear, and travel, fell sharply. Similarly, the restaurant industry suffered.

The priority for businesses in the next normal must be to manage the immediate impacts of the crisis on consumer demand. Depending on their position, that may mean ramping up digital solutions, leveraging third-party platforms, and using social media to continue conversations with their customers. Over the medium term, companies must make strategic decisions on e-commerce, taking into account their current capabilities, the trajectory of customer demand, and factors such as supply-chain capacity and flexibility.

We see three key ways forward:

Sustain 	Players with an online presence seeing a <i>rapid increase in demand</i> (for example, those associated with grocery and essential products) should sustain their activities through steps such as optimizing baskets and rationalizing product ranges to enable consistent delivery.
Adapt 	Players with an online presence seeing a <i>rapid decline in demand</i> (for example, those associated with discretionary-spending categories, including apparel, footwear, and luxury products) should adapt by becoming more flexible, optimizing digital offerings, and ramping up marketing.
Build 	Players <i>lacking an online presence</i> must make no-regret moves, such as embracing social-media marketing. They should also find ways to sell online, through either third-party platforms or their own bespoke offerings.

In all scenarios, speed is of the essence. If companies in the MEA region can act decisively on digital initiatives, they will offset the impacts of the crisis, recapture lost sales, and be ready to grow in the next normal.

The cautious consumer

In Turkey, around 58 percent of consumers say they must be “very careful” on spending, and 56 percent are “actively cutting back,” according to a recent [McKinsey survey across the region](#).¹ In Egypt, around two-thirds of consumers have seen a recent decline in income. Some 61 percent of consumers in Saudi Arabia believe their personal or household finances will take a hit for at least two months.

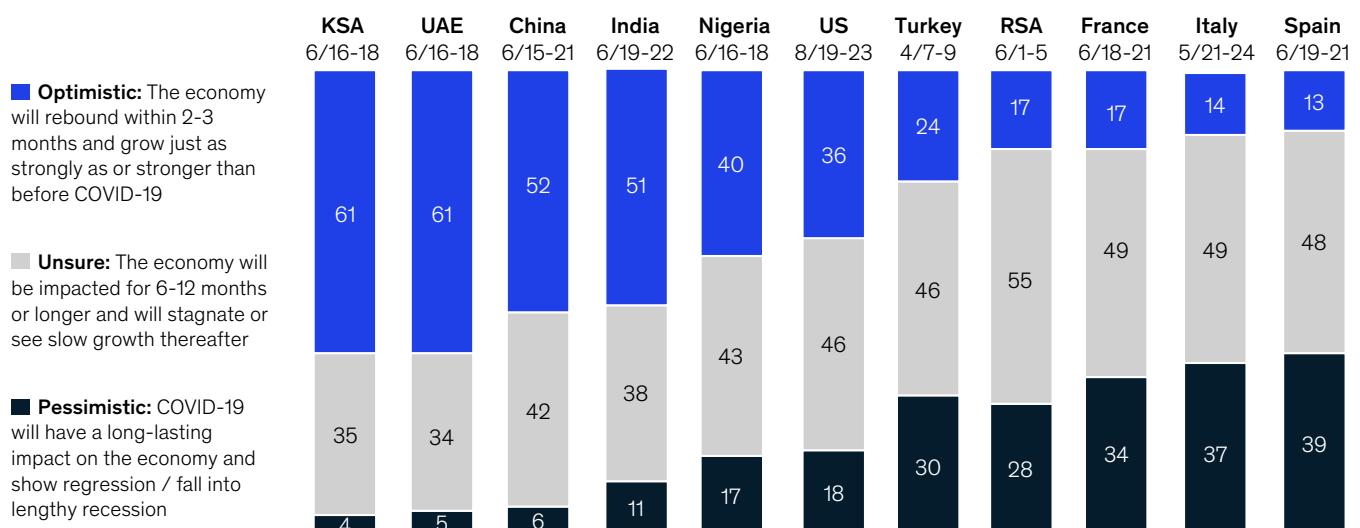
Consumers in the MEA region are unsure when the COVID-19 crisis will end but believe that it will take at least four months for life to return to precrisis norms. Consumers in Nigeria, Saudi Arabia, and the United Arab Emirates are more optimistic than their peers in France, Spain, and Turkey that their economies will rebound within two to three months (Exhibit 1). That is the result of a higher starting point: consumers in Saudi Arabia and the United Arab Emirates were relatively upbeat about their economies at the start of 2020.

¹ McKinsey COVID-19 Consumer Pulse Surveys of 504 respondents in Nigeria (conducted June 16–18, 2020), 514 respondents in Saudi Arabia (conducted June 16–18, 2020), 511 respondents in South Africa (conducted June 1–5, 2020), 599 respondents in Turkey (conducted April 7–9, 2020), and 516 respondents in the United Arab Emirates (conducted June 16–18, 2020).

Exhibit 1

Consumers in MEA are more optimistic in the medium term than their peers in other regions.

Confidence in own country’s economic recovery after COVID-19¹, % of respondents



¹Question: How is your overall confidence level on economic conditions after the COVID-19 situation? Rated from 1 very optimistic to 6 very pessimistic.

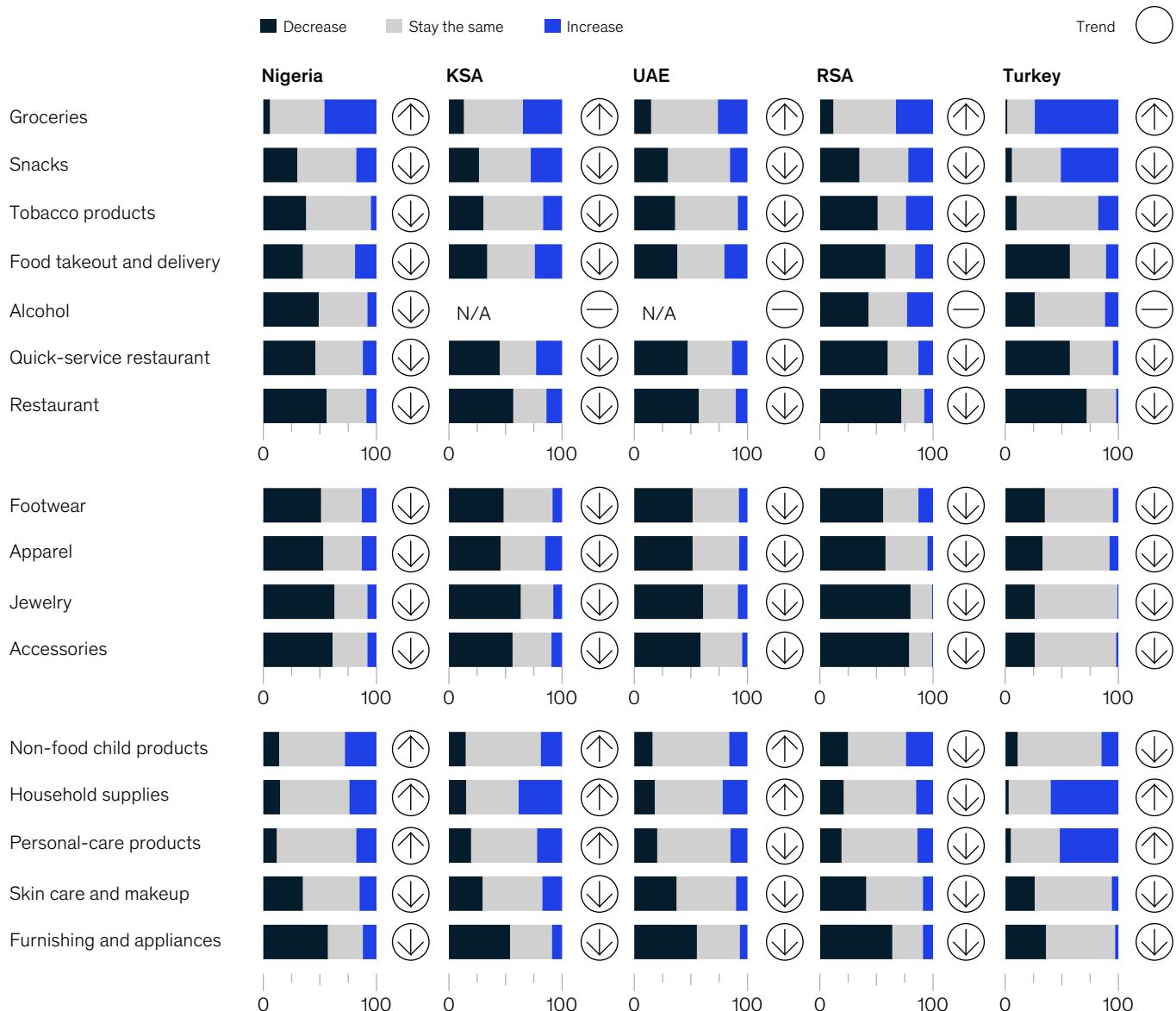
Source: McKinsey & Company COVID-19 Consumer Pulse Survey China n = 1,249 including Hubei province; India n = 624; US n = 2,026; France n = 1,006; Spain n = 1,007; Italy n = 1,000; South Africa n = 511; KSA n = 514; UAE n = 516; Nigeria n = 504; Turkey n = 599

Still, relative optimism does not translate into spending, apart from on essentials. Sales in discretionary categories, such as apparel, footwear, and travel, have fallen sharply. Similarly, the restaurant industry has been heavily hit, with 56 to 72 percent of survey respondents saying they will reduce spending at restaurants in the next normal (Exhibit 2).

Exhibit 2

Consumers expect to spend more on groceries and household essentials.

Expected spending per category compared to usual¹, % of respondents



¹Question: Over the next two weeks, do you expect that you will spend more, about the same, or less money on these categories than usual? Net intent is calculated by subtracting the % of respondents stating they expect to decrease time spent from the % of respondents stating they expect to increase time spent.

Source: McKinsey & Company COVID-19 Consumer Pulse Survey South Africa n = 511; KSA n = 514; UAE n = 516; Nigeria n = 504; Turkey n = 599

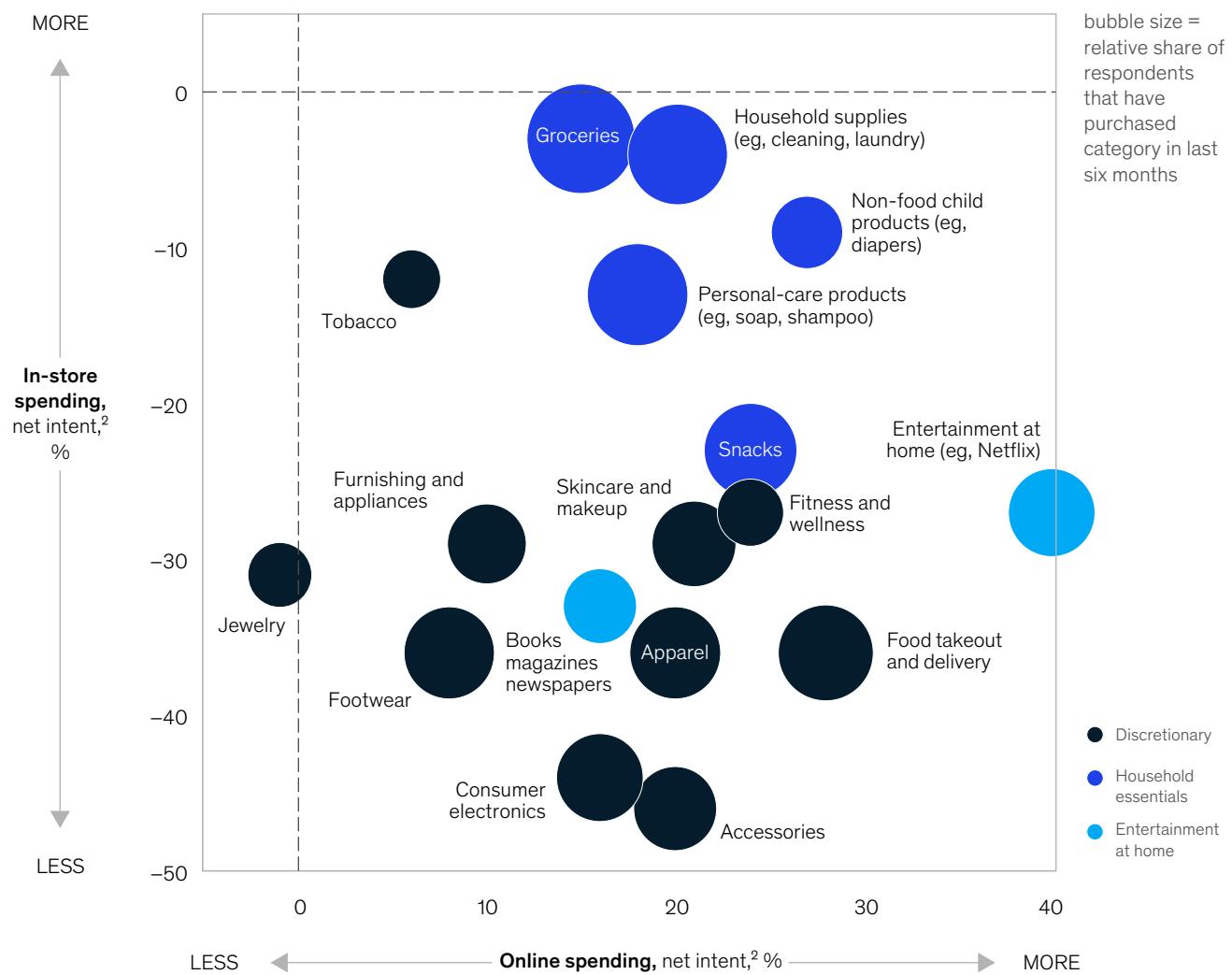
Online shopping: A permanent trend?

The MEA region has been relatively slow to adopt e-commerce, but the COVID-19 pandemic has brought a step change in behaviors. Consumers across the Gulf Cooperation Council, South Africa, and Turkey have done a lot more shopping online during the pandemic than before, amid higher demand for groceries, personal care, and household supplies (Exhibit 3). In fact, consumers in Saudi Arabia and the United Arab Emirates have seen among the highest rates of “new or increased” users in online deliveries (restaurant products and groceries) and communications (videoconferencing and remote learning).

Exhibit 3

Consumers expect to remain cautious, with most appetite for products available online – KSA example.

Expected change in shopping channel per category,¹ Axes show net intent²



¹Question: Over the next two weeks, where do you expect you'll buy these categories? Tell us if you will shop in the following places more, about the same, or less in the next two weeks; please note, if you don't buy in one of these places today and won't in next two weeks, please select "N/A".

²Net intent is calculated by subtracting the % of respondents stating they expect to decrease shopping frequency from the % of respondents stating they expect to increase shopping frequency.

Source: McKinsey & Company COVID-19 KSA Consumer Pulse Survey 6/16–6/18/2020, n = 514 sampled and weighted to match KSA's general population 18+ years

As the e-commerce landscape evolves, brands must be prepared to tailor their strategies to new patterns of customer demand, working out how to develop their propositions to achieve maximum impact and build sales fast. For brands yet to engage with digital solutions, the crisis should act as a clarion call. The time to act is now.

Strategies for e-commerce acceleration

Our research suggests that a one-size-fits all approach to e-commerce is unlikely to be optimal in the MEA region. Instead, individual brands must weigh their priorities, based on the level and probable trajectory of customer demand and factors such as supply-chain capacity and flexibility. As companies consider their options, the impacts of the COVID-19 crisis on demand and online activity are likely to dictate the terms of discussions. However, we see companies falling into three archetypes: players with an online presence seeing a rapid increase in demand, players with an online presence seeing a rapid decline in demand, and players lacking an online presence.

Regardless of archetype, five main capability areas are key to building a successful e-commerce business (Exhibit 4):

- assortment and merchandising
- design and technology development
- operations, logistics, and customer support
- marketing
- talent, operating model, and change management

The effort that each player should allocate to each of the capabilities will vary depending on the archetype it falls into. For example, operational scale-up will be a priority for grocery players in the first archetype to ensure that they can meet excess demand. The first imperative for apparel, fashion, and luxury brands, on the other hand, will be to recover from the crisis, focusing their efforts on acquiring traffic and improving on-site conversion. Those companies may then use e-commerce as a launching pad to boost revenues as the economic rebound gathers pace.

Exhibit 4

Moving online requires five main capabilities.

Main capabilities	What this means
Assortment / merchandising	 <p>Structured assortment process Establish processes to ensure SKU enrichment and mgt; including process for ordering</p>
Design and technology development	 <p>UX development (in iterative, rapid sprints) Design webshop, prepare MVP, test prototypes and make design iterations (agile model)</p>
Operations, logistics, and customer support	 <p>Order fulfillment Setup warehouse and onboard / train new team to handle order fulfillment</p>
Marketing	 <p>Online marketing Attract traffic through tailored messages on appropriate channels</p>
	 <p>Special bundles / product promotions Created based on customer insights and sales data</p>
	 <p>Platform architecture Build tech foundation; integration of webshop with warehouse management system</p>
	 <p>Collaboration with carrier Finalize and negotiate shipment options on webshop and implement them in backend</p>
	 <p>Customer support Train customer service agents / develop bots across email, phone, and/or chat</p>
	 <p>Loyalty and CLV mgt CRM database and continuous customer engagement</p>
 <p>Talent, operating model, and change management</p>	

Source: McKinsey & Company analysis

Companies with an online presence seeing a rapid increase in demand: Sustain

Retailers seeing the biggest jumps in demand during the COVID-19 crisis include grocers, household stores, and pharmacies, reflecting the fact that people are spending more time at home and are focusing on staying healthy. The imperative for those companies now is to future-proof their business models by boosting online capabilities. In grocery retail, that means ensuring sufficient capacity to cater to higher volumes and maintaining high levels of service and consumer satisfaction. For companies focused on sustaining, a renewed e-commerce strategy comprises the following actions across the five capability areas:

Assortment and merchandising 	<p>In periods of high demand, companies should focus on ensuring critical-product availability. To that end, they can benefit from streamlining product ranges, working with suppliers to do so (for example, via off-cycle orders). In the short term, it makes sense to reduce assortments and simplify processes. Some retailers have created preselected baskets and imposed order limits. For example, a company created four different food baskets, while another offered baskets focused on staples. Those initiatives led to as much as three times the uplift in basket size and like-for-like revenue gains of 2 to 3 percent.</p>
Design and technology development 	<p>Retailers' e-commerce sites need to handle increased traffic and order placement. Their decision makers should put in place analytics to ensure that they can keep track and make informed decisions. Such analytics may include system alerts for key metrics and real-time dashboards. Many retailers have partnerships with third parties to help them scale technology rapidly, taking in front-end activities, marketing, DevOps tooling, and back-end integration.</p>
Operations, logistics, and customer support 	<p>As orders increase online, brands must ensure sufficient delivery and fulfillment capacity. Nondiscretionary items are likely to come under the most pressure. Stores may need to adjust delivery and replenishment frequencies, tap new suppliers, extend delivery windows, and expand click-and-collect tools. Those actions may require more overnight in-store capacity, enhanced logistics (potentially through partnerships), and modifications to warehousing facilities. Transparency on key performance indicators is critical: orders delivered on time and in full should be the focus. Some companies have used on-demand cab aggregators and last-mile-service companies to ensure that they have the capacity and flexibility to meet demand. Others have increased replenishment frequency and introduced new timetables (for example, catering for night-time deliveries).</p>
Marketing 	<p>Given higher-than-usual traffic and conversions, the focus should be on aligning marketing spend with the evolving situation (for example, improved communication with customers in relation to delivery times and better coordination with operations to align orders with increasing capacity).</p>
Talent, operating model, and change management 	<p>Companies should identify and implement no-regret moves to ensure safety across online and business activities. Those moves may include updating travel, safety, workday, sick-leave, and compensation policies. In addition, resources should be assigned in operations to address new capacity requirements and to ensure that employees are trained.</p>

Retailers that get an early grip on those issues should be able to make the necessary adjustments over four to five weeks. During that time, they must set up task forces, develop plans and road maps, adapt fulfillment and last-mile capacity, and tailor marketing and merchandising. At the end of the process, brands should find that their commercial and operational decisions are better aligned, meaning that they are able to control their activities flexibly in line with shifts in demand.

Companies with an online presence seeing a rapid decline in demand: Adapt

Discretionary categories have had a tough time during the COVID-19 crisis, with stores shut and little appetite for clothes or spontaneous purchases. Quick-service restaurants are in a similar situation, with few having managed a fast transition to online delivery. Online retail has provided some relief, but many players have lacked the digital resources to compensate for losses in physical channels. As a result, they have come under increasing pressure; the equity prices of many listed companies are far below where they were at the beginning of 2020.

By doubling down on online presence and backing it up with the necessary logistics, companies focused on adapting can offset the effects of subdued consumer sentiment and lay the foundations for more powerful e-commerce propositions. Such companies can realize impact by taking the following actions across the five capability areas:

Assortment and merchandising 	The key is to have flexibility within a structured, data-driven process. Some players have driven growth by broadening their delivery assortment. For example, quick-service restaurants have offered a wider range of combinations and offers tailored to new customers' demographics (such as more family-size orders). Because consumers are stuck at home, they are often willing to buy products for delivery that they might have avoided previously. As companies tailor their assortments, they should also think carefully about how to optimize on-site displays to create maximum impact.
Design and technology development 	Periods of lower traffic present an opportunity to improve the front and back ends of a retailer's website and app. That will lead to higher conversion rates in the short term and will lay the foundation for longer-term adaptation in the next normal.
Operations, logistics, and customer support 	It makes sense for companies to review their online-order-fulfillment models, including last-mile delivery and inventory management. Retailers seeing lower levels of demand are likely to have extra capacity, which they can monetize by providing services (such as use of fleets) to players that need capacity. They may also need to shutter or reduce some activities. In the case of quick-service restaurants, unused stores can even be offered as "dark kitchens," pulling orders from different locations and brands (for multibrand groups) to reduce preparation costs.

 <p>Marketing</p>	<p>Structured analysis of search-engine traffic (including keyword review) and social-media activity can help reduce cost per lead by 10 to 40 percent and cost per click by as much as 20 percent. Simple measures, such as improved content indexing, can feed into higher numbers of site visits. Brands can then allocate their budgets based on impact. They can also engage more closely with consumers, launching personalized campaigns and identifying opportunities for brand building. If they get their strategies right, they can achieve impressive results via e-commerce in just a few days. Social-media chat features, enabling quick customer access to sales representatives, can be particularly effective. They tend to work best when they are used by highly targeted brands and are directed at high-value customers rather than the mass market. For example, a mass beauty brand used more than 10,000 WeChat groups for private-domain social engagement and commerce, moving offline makeup experts online.</p>
 <p>Talent, operating model, and change management</p>	<p>Companies should adapt policies to ensure customer and employee safety. They would include updating operating models and travel, safety, workday, sick-leave, and compensation policies. In many cases, companies will need to offer employees leaves of absence—and in some regions, they will receive government support to do so. In Turkey, the government offered to pay 60 percent of salaries for three months and provide a daily allowance to workers forced to take unpaid leave.</p>

Once brands' capability assessments are complete, they can act to boost traffic and awareness, encourage on-site conversion rates, and optimize inventory and the fulfillment process. Those actions can be structured around focused sprints in the areas where the highest potential lies. Brands that set up a war room to handle execution can expect to make significant progress in three to four weeks (Exhibit 5).

Companies lacking an online presence: Build

Retailers that do not currently leverage digital channels have three options, each of which offers a distinct route to market. The fastest is to leverage social media, which can be a powerful tool in its own right. Companies can also sell through existing e-commerce platforms, which will give them access to higher numbers of customers over a short period. Finally, they can build their own e-commerce offerings, a likely no-regret move in the next normal. Decisive action can progress e-commerce sites from development to launch in as few as three months.

None of the options are mutually exclusive. In fact, it makes sense to pursue all three in parallel, ensuring that the company pulls the maximum number of digital levers to achieve impact:

Exhibit 5

A 3-4 week sprint to realize immediate impact.

Building blocks	What happens in the ~3-4 weeks to rapidly boost your e-commerce business?		
Awareness & Traffic			
	Allocate budget to highest impact paid-channels (e.g., FB/IG, SEA)	Launch contextual and personalized campaigns	Identify opportunity for brand building
On-site & conversion			
	Tailor on-site messaging to situation and contextual landing page	Introduce special offers (e.g., free shipping, 3-for-2) and discounts	Optimize on-site product assortment / display (e.g., casual wear, basic pieces, lounge wear and sports wear)
Fulfillment & Stock			
	Introduce extra health guidelines and prepare fulfillment and customer support capacity, incl. staff temporary sources if needed	Prioritize SKUs, ensure sufficient stock allocation and daily monitoring	Find creative solutions for alternative fulfillment, e.g., using own stores that are now empty
Loyalty			
	Leverage CRM, in particular e-mail marketing, and maximize frequency of both e-mail and app push	Investigate opportunity to create special offers for loyal customers	

- **Get on social media:** The fastest and simplest approach is to use the “quick and dirty” social-media route. Social-media platforms provide an effective way to connect with customers, launch offerings, and start conversations. For example, a Brazilian retailer built a WhatsApp-based sales solution in 72 hours, leveraging its idle sales force to lead the client-outreach effort.
- **Leverage existing marketplaces.** It can take as few as three weeks to start selling on marketplaces with fulfillment services. While margins are significantly lower because of commissions of 25 to 30 percent, there are potential compensations in higher volumes and significant increases in customer reach.

- **Build websites or mobile apps.** On a three-month timeline, companies can build an integrated e-commerce solution, end-to-end operations, standardized product-assortment processes, and multichannel marketing (Exhibit 6).

Exhibit 6

Rapid action to build an e-commerce business.

Building blocks	What happens in the 3 months to rapidly build a new e-commerce business?		
Integrated e-commerce solution	 Define platform architecture	 Connect warehouse and webshop	 Improve warehouse management system
Fully functional operations (end-to-end)	 Onboard new warehouse team	 Collaborate with carrier	 Set up customer support line
Standardized product assortment process	 Make ~1,500 products available online	 Establish structured assortment process	 Create online-exclusive bundles
Multi-channel marketing launch campaign	 Launch physical marketing	 Launch online marketing	 Big splash marketing on launch day

It requires a focus on building the five capabilities²:

Assortment and merchandising 	For online channels, companies require a standardized, structured product assortment, which can be limited at first for speed and simplicity. In grocery, baskets of essentials work well. Alternatively, retailers can offer more shopping flexibility but retain limited assortments (such as 1,000 to 1,500 products).
Design and technology development 	Companies must ensure that they have sufficient resources to build their platforms. To accelerate the process, they have the option of leveraging off-the-shelf tech tools. Among those are ready-made e-commerce platforms, analytics capabilities, and software to support agile ways of working. At the back end, companies can provide proxy servers and app-bug-monitoring services. In warehousing, product-information-management systems can ensure that online channels get off to sure starts.
Operations, logistics, and customer support 	Once the foundation of e-commerce is built, leaders should focus on creating fully functional, end-to-end operations, including warehouse optimization for e-commerce and new-team onboarding and training to handle order fulfillment. The process should include the finalization of collaboration terms with carriers, training of customer-service agents, and launching of bots across email, phone, and chat channels.
Marketing 	Companies should put in place dedicated marketing campaigns for their new online channels across both physical and digital media. Marketing will be especially important in industries that have seen sharp declines in demand. Initiatives such as tailored on-site messaging, special offers (such as free shipping), and optimized displays will help show that their digital brands are open for business. Retailers can leverage off-the-shelf marketing solutions (such as Mailchimp) and personalization enablers (such as Dynamic Yield), individualizing user interactions across web and mobile channels.
Talent, operating model, and change management 	Companies must get their talent strategies right—a significant challenge, given a widespread shortage of digital expertise. Change management will also be crucial as employees adapt to new operating models and modified sets of key performance indicators. Leadership support can encourage buy-in.

²For more, see our full perspective in Arun Arora, Philip Christiani, Ralf Dreischmeier, Ari Libarikian, and Hayk Yegoryan, [“Building an e-commerce business: Lessons on moving fast,”](#) April 3, 2020, McKinsey.com.

The retailers in the MEA region that have performed the best during the COVID-19 crisis have leveraged powerful digital capabilities. In so doing, they have aligned themselves with a trend that was already becoming established. As the crisis abates, their tasks include the following:

- Assess current placement on the digital journey.
- Move quickly to use social media, third-party platforms, and e-commerce.
- Act across the five capabilities.
- Leverage partnerships when necessary.

The onus should be on finding the right balance between speed to market and cost efficiency. By embracing digital solutions, retail companies in the MEA region can put themselves in a position to compete and accelerate their e-commerce activities as the crisis abates.

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