

Supporting the growth of the retail sector in 2022 and beyond

Powered by Mukatafa in collaboration
with Bain & Company

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Highlights

As the retail sector emerged from the effects of the Covid-19 pandemic, Mukatafa Consulting and Bain & Company collaborated on this 2021 survey to assess the regulatory issues hindering a return to growth.

Focusing on the end-to-end regulations chain, the purpose of the study was to develop policy recommendations that will enable the sector to better contribute to Vision 2030 objectives.

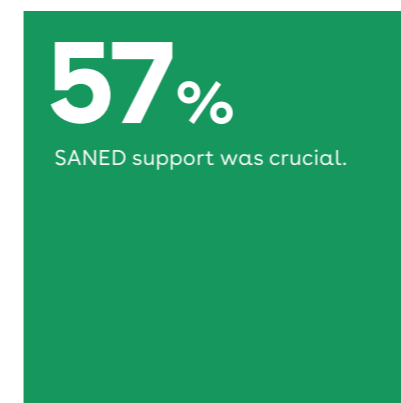
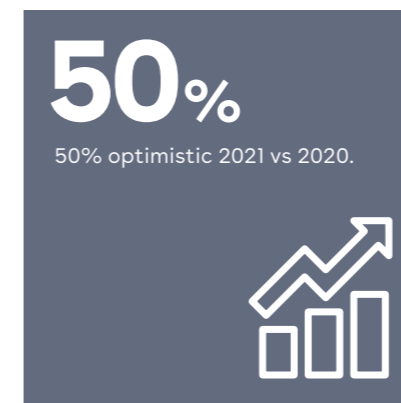
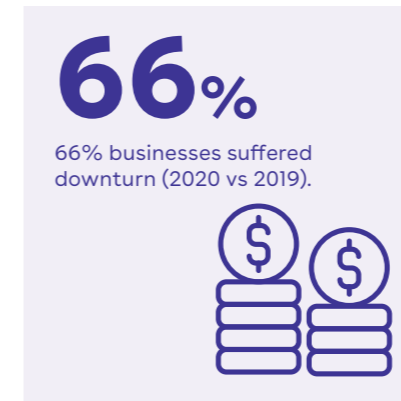
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Retail Sector



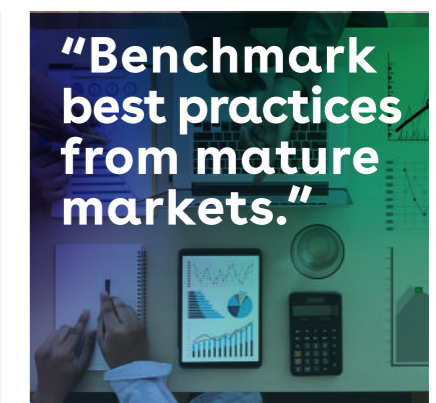
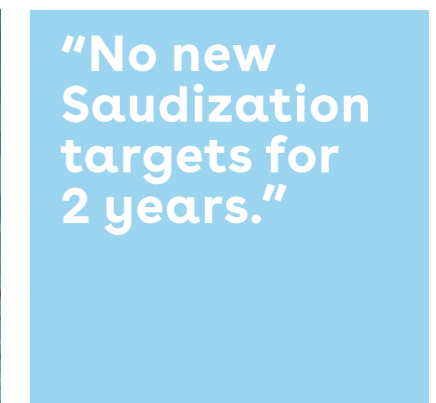
Post COVID-19



Regulatory Change



Involve Retailers



Regulatory Changes Crucial to Post-Covid Recovery



“ There is reason for optimism.

HH Prince Waleed bin Nasser Al Saud
Chief Executive Officer, Mukatafa

Public and Private Sector collaboration is needed to enable the retail sector to contribute to Vision 2030 objectives.

The Saudi retail sector was hit hard by the Covid-19 pandemic with more than 60 percent of retailers suffering a downturn in 2020 compared to the previous year. With retail the second highest contributor to non-oil GDP, this translates to a serious economic downturn for Saudi Arabia. This was one of the most notable findings of our recent survey of major Saudi retailers – conducted in collaboration with retail strategists, Bain & Company.

Nevertheless, there is reason for optimism. More than a half of our survey respondents were confident that 2021 results would be up versus 2020. It is worth noting that this survey was conducted before the recognition of the Omicron variant, the effect of which is still to be fully seen.

Whatever time frame our respondents expect, there was a great deal of agreement about what is needed to speed recovery: key changes to the regulatory framework. In particular, taxes and fees; regulatory uncertainty and Saudization issues were identified as the main challenges hampering the sector.

“ Retailers want to stand shoulder-to-shoulder with the public sector.

The survey also showed that businesses are keen to be a part of the solution. They are eager to have their voices heard, and to build a more collaborative working relationship – to stand shoulder-to-shoulder with the public sector to achieve Vision 2030 objectives.

This is Mukatafa’s prime purpose. Indeed, it is the precise meaning of our name.

At the outset of the second phase of the National Transformation Program, we realized that the private sector lacked the readiness to benefit from Vision 2030. It largely lacked the unified purpose that government had developed.

Of all of the Kingdom’s strategic sectors, retail has perhaps the greatest potential of fulfilling Vision 2030 goals. As well as its economic contribution – some SAR2,976 billion (with wholesale) according to the World Bank – retail is also the largest employer in the private sector, supplying 523,353 jobs in Q3 2021, according to the General Organization Social for Insurance. It is also a key employer of women. Recent research from the World Bank suggests that Saudi female labor force participation rate grew from 17.7% in Q2 2016 to 33.2% in Q4 2020, much of this growth due to the retail and hospitality sectors. It also overlaps to some degree with the entertainment sector, so stands to make a major difference to the quality of life objectives of Vision 2030.

This is why Mukatafa has chosen initially to focus on the retail sector. We’ve been able to bring major retailers together for the first time to discuss the common obstacles the sector faces, focussing on growth, costs and ease of doing business.

We followed up a program of one-to-one discussions with CEOs with a quantitative survey of retail businesses to develop this report.

As an industry advocate we are now focussed on fostering a more collaborative business ecosystem that delivers a win-win-win outcome – for the private sector, the public sector, and for the Saudi people.

HH Prince Waleed bin Nasser Al Saud
Chief Executive Officer, Mukatafa

Examining the Regulatory Chain

SAR 2,976bn

Contribution to GDP.

523,353

Employed in sector.

The retail sector plays a pivotal role in Saudi society, not just for the significant contribution it makes to GDP and job opportunities, but also for the critical role it can play in achieving Vision 2030 objectives of improving the quality of life.

The purpose of this study by Mukatafa and Bain & Company was to contribute to the sustainable success of the sector by examining the end-to-end regulatory chain, identifying possible obstacles to sector growth and making policy recommendations to overcome them.

Over recent decades the retail sector has become an increasingly important part of the fabric of Saudi society, not just for the revenue it generates, but also for the experiential, societal and entertainment possibilities it offers.

As a consequence, the retail sector is a fundamental part of achieving Vision 2030 objectives of reducing the Kingdom’s reliance on oil, diversifying the economy and building a thriving economy and a vibrant society that offers a better quality of life and empowers its citizens.

The retail sector truly is key to these aspirations. Certainly, for the direct economic contribution it generates, but also because of its ability of attracting local, regional and international brands and introducing cutting-edge processes, practices and experience.

In fact, Saudi Arabia is ahead of the majority of the world in recognizing retail to be much more than a transactional process. As the country emerges from the effects of Covid-19 and looks forward to a recovering economy, it is likely that we will see a great deal of growth and innovation in the sector.

Vision 2030

“The retail sector is a fundamental part of achieving Vision 2030 objectives of building a thriving economy and a vibrant society.”

Licensing & Permits	HR	Product Registration	Customs, Tax, Zakat	Rent & other operations	E-commerce	Sector growth
Ministry of Commerce	Ministry of HR and Social Development	SASO	ZATCA	Ministry of HR and Social Development	SASO	Ministry of Investment
Ministry of Municipal, Rural & Housing Affairs	Ministry of Municipal, Rural & Housing Affairs	SFDA	ECZA	Ministry of Finance	SFDA	Ministry of Tourism
Ministry of HR and Social Development	General Authority of Statistics	SABER		Ministry of Municipal, Rural & Housing Affairs	ZATCA	ZATCA
Civil Defense		ZATCA		Ministry of Commerce	Ministry of Commerce	Ministry of Culture
		Ministry of Commerce		Ministry of Commerce	Ministry of Municipal, Rural & Housing Affairs	Ministry of HR and Social Development
		Ministry of Municipal, Rural & Housing Affairs			Civil Defense	Ministry of Municipal, Rural & Housing Affairs
					ECZA	Ministry of Finance
					Ministry of Finance	Monsha'at

The chain of government regulations and interfaces and responsible ministries and agencies
 * see Glossary for explanation of acronyms

About the Survey

75

75 retail businesses took part in the survey.



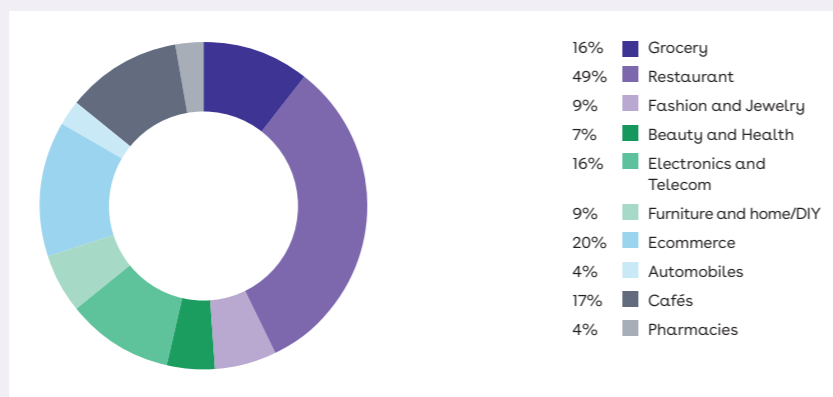
A total of 75 businesses took part in the survey, over 40 percent of whom were very large sized (>1000 employees). The grocery sub-sector was the exception, where more than 40% of respondents were medium-sized businesses (50-249 employees).

The largest participating subsectors were restaurants (49%), e-commerce (20%) and cafés (17%).

Survey participants by subsector

49%

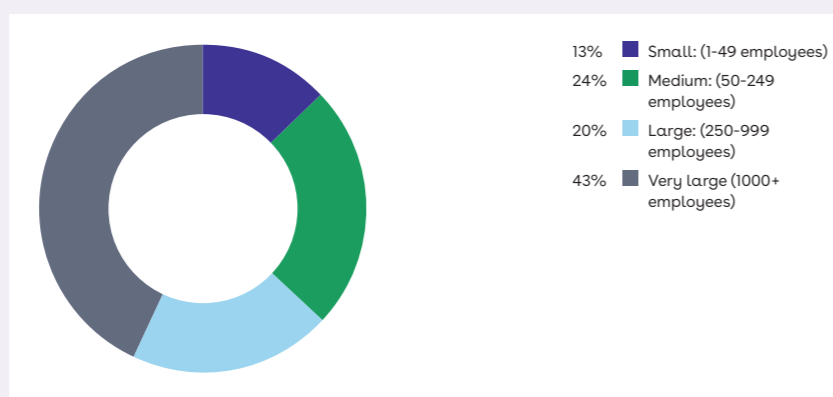
Of survey respondents from restaurant sub-sector.



Survey participants by business size

43%

Of survey respondents from companies with >1000 employees.



Main Challenges for the Retail Sector

The fall-out from Covid-19 has undoubtedly been the dominant factor affecting retail revenues over the past 18 months - and usually for the majority of businesses, for the worse - but the focus of this survey was very much on the longer term.

Most retail businesses expect results to recover to pre-covid levels at some point - some sooner, some more slowly - but the majority also believe that government regulations do not adequately support business growth.

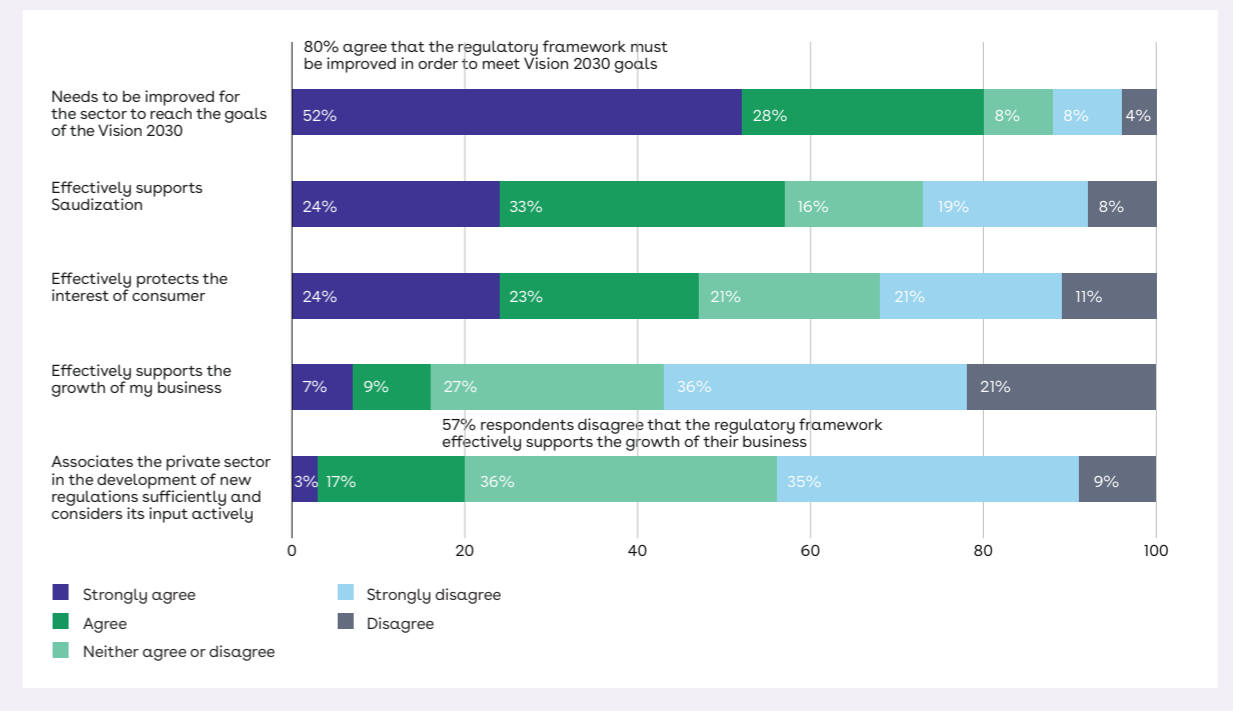
Regulatory Framework and Vision 2030

80%

Agree that the regulatory framework must be improved in order to meet Vision 2030 goals.

57%

Respondents disagree that the regulatory framework effectively supports the growth of their business.



Main Challenges for the Retail Sector (continued)

According to respondents, there are three overriding areas of government regulation that need to be addressed to enable the sector to deliver Vision 2030 goals, namely:

- Government taxes and fees, and high operational costs
- Regulatory uncertainty and consolidation
- Increased Saudization requirements and difficult talent management.

Government taxes and fees and high operational costs

- Taxes, fees and fines (eg VAT & labor fees) diminish purchasing power
- Increased operating costs lead to constant cost base increase
 - High supply chain costs driven by high aggregator costs, higher prices of imported goods, rising freight cost.
 - High regulation costs such as work permit and Iqama renewal fees and municipality regulation fees.

Specific suggestions from CEOs of some of the largest retail companies in the Kingdom include:

Regulatory uncertainty and consolidation

Excessively dynamic and confusing regulations

“Rapidly changed government regulations without giving enough time for all stakeholders to adapt and accommodate.”

“Confusing and tough regulations make life more difficult (Saudization of Malls and lack of exceptions for back-office staff).”

Multiple government agencies to deal with

“Very high expensive government policies post Corona and requirements from too many government entities at one time.”

“No specific governmental agency for the fine dining sector.”

Increased Saudization and difficult talent management

Rampant Saudization

“Stringent and difficult to implement frontline Saudization requirements without proper phasing.”

“Saudization and administrative complexities in getting skilled labor into the country.”

Talent acquisition, development and retention

“Local population needs to be trained better.”

“Saudization and finding the right sustainable Saudi employee.”

“High Saudization turnover.”

Main Challenges for the Retail Sector (continued)

The survey also rated the regulatory areas that participants considered to be over-regulated and under-regulated, prioritizing which areas should be tackled first.

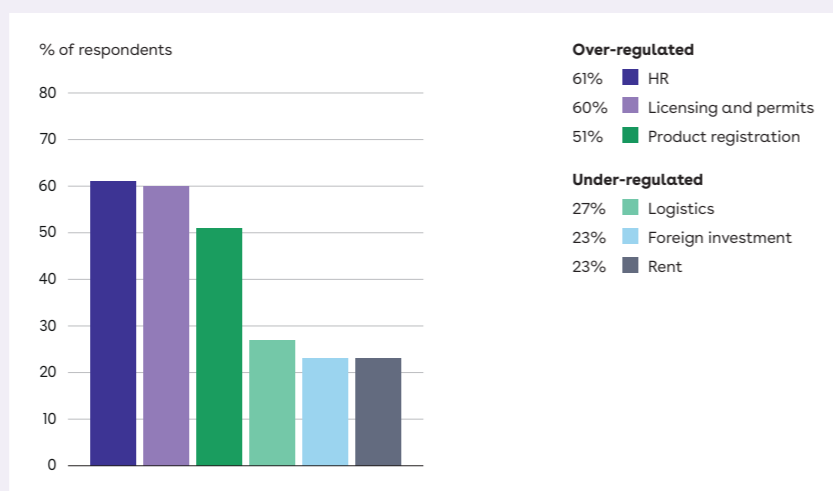
Over-regulation vs Under-regulation

61%

Of respondents believe HR is over-regulated.

23%

Of respondents believe rent is under-regulated.



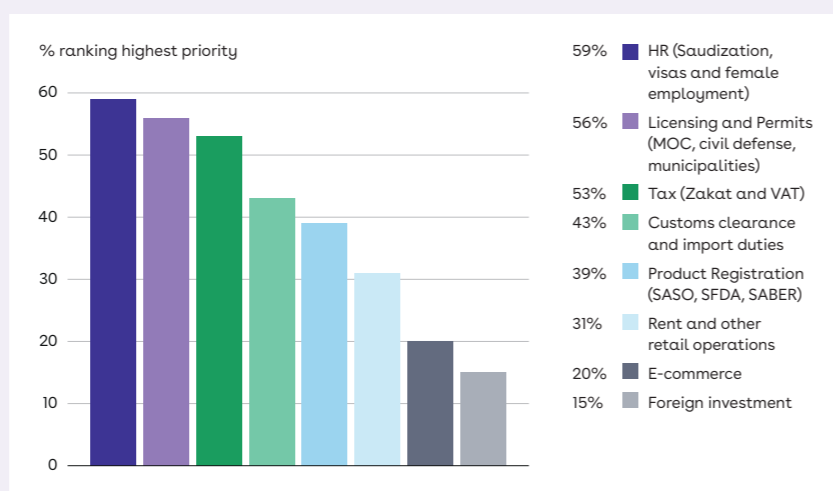
Prioritizing Change

59%

Of respondents prioritize reform of HR regulations.

56%

Of respondents prioritize reform of Licensing and Permit regulations.



Focus on HR and Licensing

Reforms to Human Resource and Licensing and Permits regulations would be of most value to the retail sector, according to respondents.

47%

Call for labor regulations harmonization for men and women.



Changes to Saudization laws and introducing a warning system before licensing/permit non-compliance fines are issued are the most popular possible improvements in those respective categories, according to our survey.

Key potential policy changes:

- change Saudization regulations and policies
- introduce a warning system before penalties issued

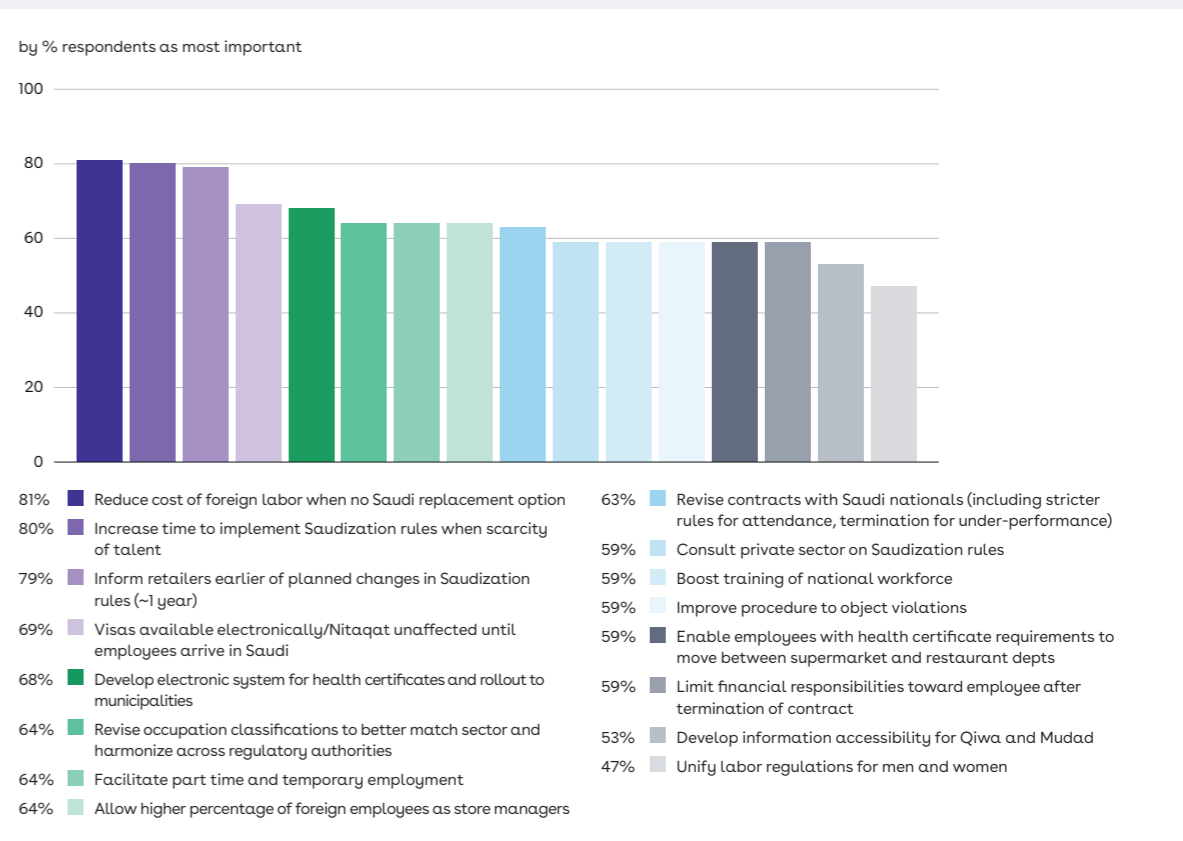
HR Regulatory Reform

81%

Would most welcome costs of foreign labor reduction when no Saudi replacement option.

80%

Would increase time to implement Saudization rules when scarcity of talent.



Focus on HR and Licensing (continued)

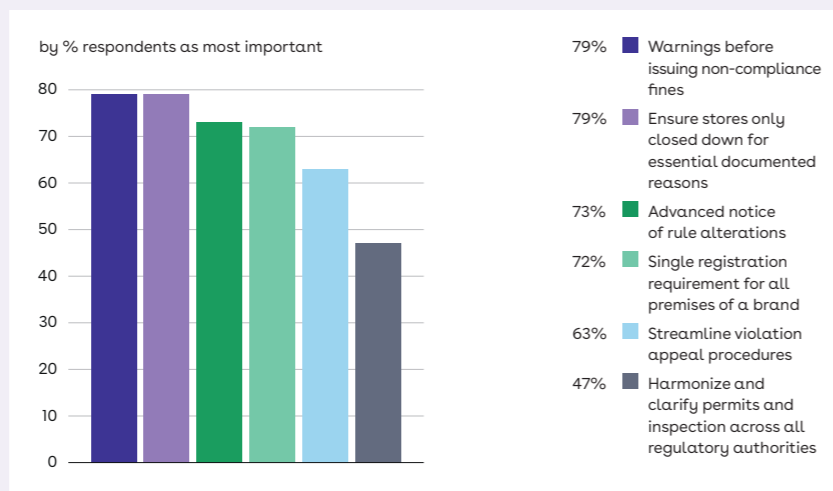
Licensing and Permit Reform

79%

Believe warnings should be issued before non-compliance fines.

79%

Believe should only be closed for essential documented reasons.



Focus on Product Registration and Customs, Tax and Zakat

After HR and Licensing/Permits, Product Registration and Customs, Tax and Zakat regulatory reforms would be of most benefit to the retail sector to enable it to achieve Vision 2030 aims, according to our research.

70%

Of respondents believe VAT on necessities should be reduced.



Key potential policy changes:

- Reduce cost of product Registration
- Advanced notice of changing specifications
- Reduce VAT for necessities



Focus on Product Registration and Customs, Tax and Zakat (continued)

Product Registration Reform

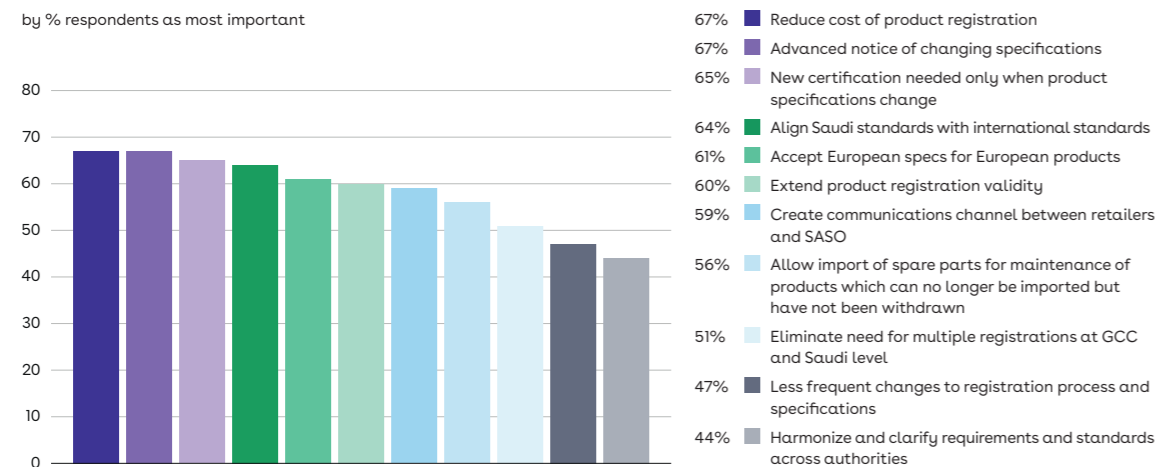
67%

Believe cost of product registration should be reduced.

44%

Call for harmonization and clarification of requirements and standards across authorities.

by % respondents as most important



Customs, Tax and ZATCA Reform

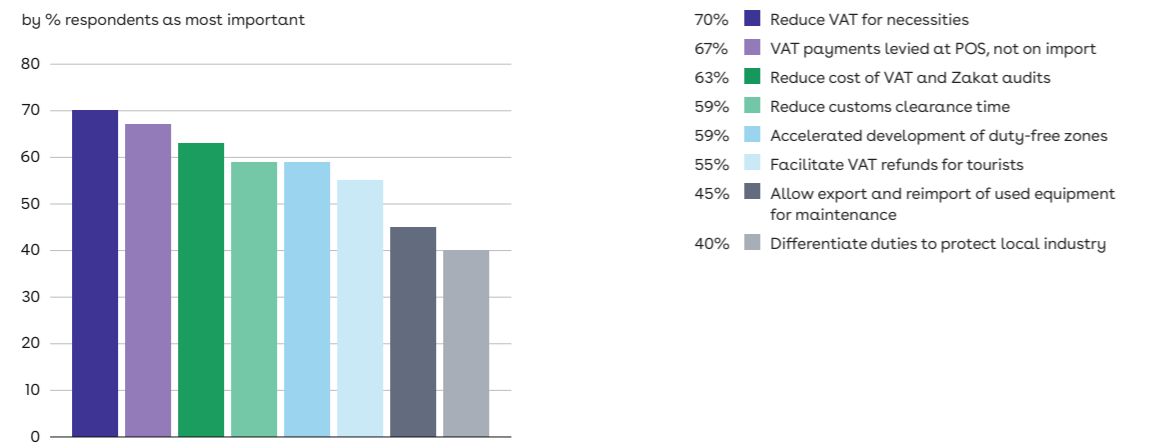
67%

Believe VAT should be levied at point of sale, not on import.

45%

Believe export and reimport of used equipment for maintenance should be allowed

by % respondents as most important

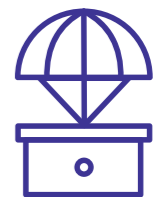


Focus on Rent and Retail Operations and E-commerce

Respondents were more split on possible rental and operational and e-commerce regulatory reforms, reflecting the varied requirements of the different sub-sectors.

+56%

Prioritize an impartial consumer complaint process.



In terms of Rent reform, just over half of respondents would prioritize an impartial consumer complaint process - with a clear appeals process - while regarding e-commerce regulatory reform, a similar proportion would prioritize a reduction in the credit card refund times down from the current 14 days.

Key potential policy changes:

- impartial consumer complaint and appeal process
- reduce credit card refunds from current 14 days.

Rent and Retail Operation Reform

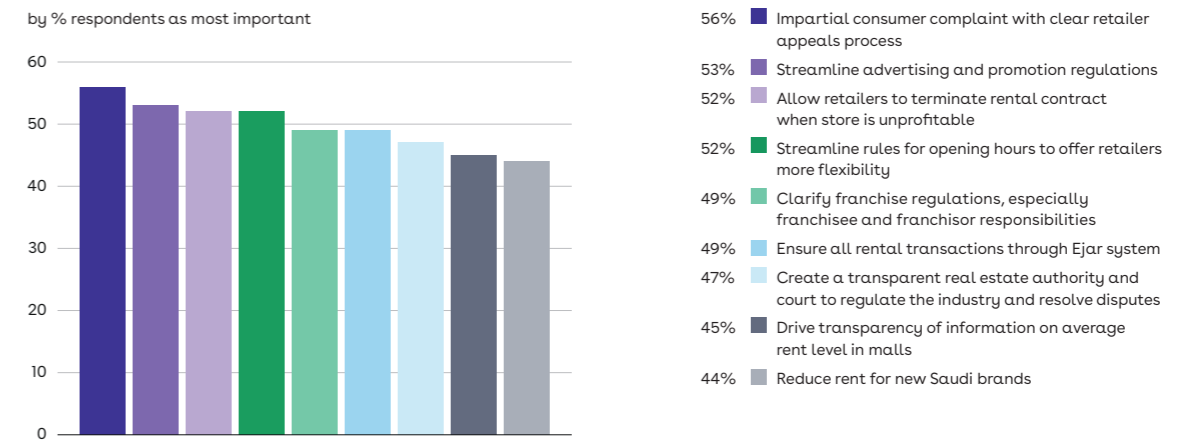
53%

Prioritize streamlining of advertising and promotion regulations.

52%

Want retailers to be allowed to terminate rental contract if unprofitable.

by % respondents as most important



Focus on Rent and Retail Operations and E-commerce (continued)

E-commerce Reform

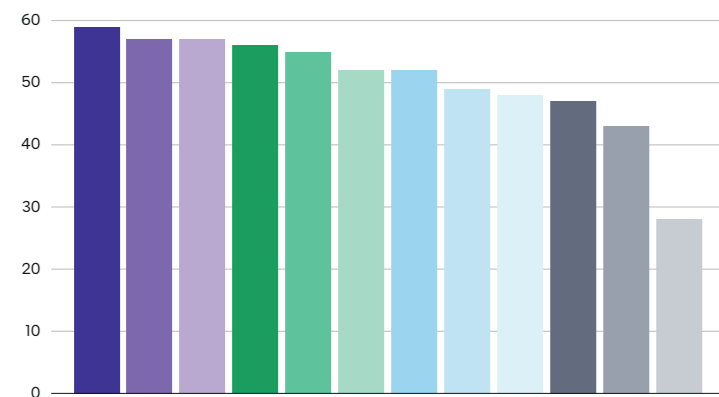
59%

Prioritize reduction of banks' 14-day credit card refund process.

57%

Want accelerated development of Free Zones.

by % respondents as most important



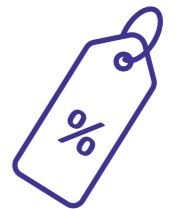
- 59% Reduce 14-day period for banks to refund credit card after order cancellation
- 57% Ensure imported products bought cross-border comply with the same regulations as those bought locally
- 57% Accelerate development of Free Zones
- 56% Allow returns to be recognized as 'duty paid' to avoid double payment
- 55% Development of quality warehouses suitable for ecommerce
- 52% Ensure seamless movements of shipment in/out free zones with consolidated payment of duties and VAT
- 52% Ensure that global brands export products to KSA at the same price as other markets
- 49% Remove threshold or add duty stamp on all ecommerce imports to align duties/VAT
- 48% Clarify responsibility of marketplace and seller in customer complaint process
- 47% Allow visas for e-commerce experts to transfer knowledge to local talent
- 43% Encourage development of local sellers
- 28% Allow ecommerce entities to store data outside KSA

Retail Sector Growth

There were several important and effective support programs put in place by the government to mitigate the economic downturn caused by the pandemic, but despite these nearly two-thirds of survey participants suffered a downturn in revenue in 2020 compared to 2019 - a trend primarily driven by hospitality businesses, many of which were forced to close.

+50%
Of businesses expecting 2021 revenue to be up compared to 2020.

33%
Of businesses are more cautious, not expecting recovery until 2022-23.



Not all business were negatively affected by the pandemic, however. There was also an upturn for some grocery and e-commerce businesses, which benefited from people being compelled to curtail eating out and switch to on-line shopping.

Despite the majority of businesses reporting depressed revenues, most were optimistic about the future, with more than 50 percent expecting 2021 revenue to increase compared to 2020 - although some 33 percent were more cautious, not expecting the recovery to be achieved until 2022-2023.



Retail Sector Growth (continued)

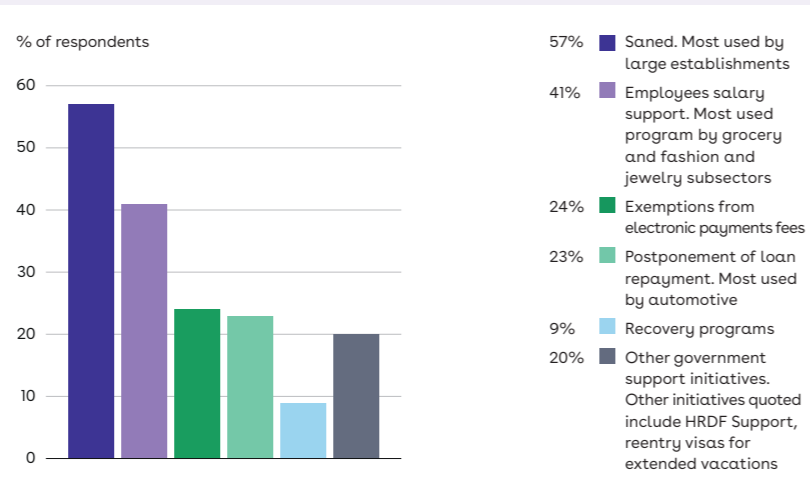
Support Program Usage 2020

57%

Saned was the most important govt support program.

41%

Employees salary support. Most used program by grocery and fashion and jewelry subsectors.



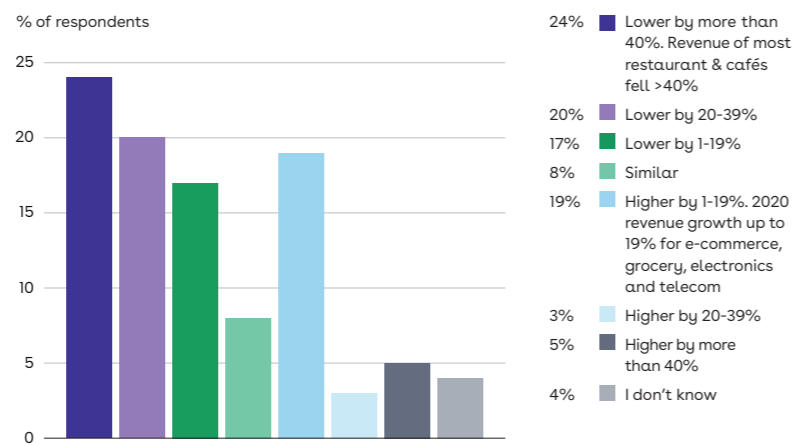
Pandemic Profit and Loss

24%

Profit down by more than 40%. Revenue of most restaurant and cafés fell >40%.

19%

Higher by 1-19%. 2020 revenue growth up to 19% for e-commerce, grocery, electronics and telecom.



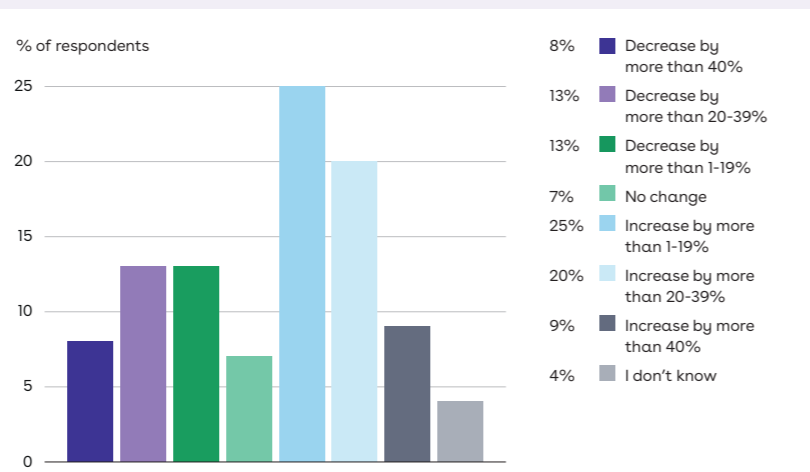
Revenue expectations for 2021 vs 2020

25%

Expect upturn of 1-19%.

8%

Expect downturn of 40+%.



Looking ahead

>50%

More than 50% of respondents are optimistic about prospects of revenue growth in 2021 compared to 2020.

33%

33% believe revenue and profit will reach 2019 levels by 2022-23.

67%

67% of e-commerce, automobiles and pharmacy businesses believe revenue growth in 2021.

pessimistic

Small establishments pessimistic about revenue recovery in 2021.

optimistic

Fashion, jewellery, furniture and DIY optimistic about recovery by the end of 2021.

late recovery

Automobile subsector does not expect to get to 2019 levels until late 2024.

33%

33% of respondents expect the market to grow by 2-5% next year.

0-2%

The grocery subsector expects market growth of 0-2% next year.

5-10%

Cafe subsector expects market growth of 5-10% next year.

Consulting the Private Sector to Improve the Regulatory Framework

53%

Want easier access to finance for SMEs.

A regulatory framework that involves close cooperation between the private and public sectors is the ideal way forward to enable the retail sector to grow and to contribute to fulfilling the aims of Vision 2030.

As well as ranking potential reforms included in our survey, many Chief Executive Officers we spoke with were eager to suggest their own ideas.

Reforms to Grow the Retail Sector

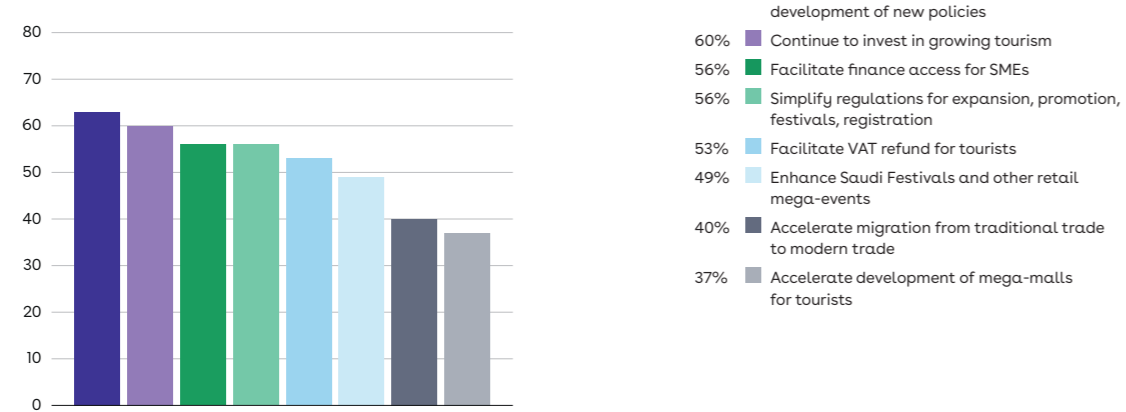
63%

Call for private sector inclusion in policy development.

60%

Want continued investment in tourism.

by % respondents as most important



Input from survey respondents

Open and structured regulatory framework

Include private sector in policy formulation

Provide regulatory support

“All the ministries should actively listen to private sector feedback BEFORE implementing new laws and regulations.”

“Establish a new retail authority or agency which lead this important sector such as the General Entertainment Authority.”

Labor

“We should all implement our development plans to ensure our colleagues gain the necessary skills. We believe no new Saudization targets should be implemented for at least 2 years.”

Adopt best practices from mature economies

Develop global benchmarks and follow them

“Please benchmark processes that different jurisdictions in developed/mature markets follow. The findings should be a model to follow and improve upon overtime. This will enhance growth of the e-commerce sector in the Kingdom and will generate positive multiplier effects in the Saudi economy.”

Project Team

This survey into the regulatory framework of the Saudi retail sector was performed by a joint Mukatafa/Bain & Company team, combining Bain's leadership in retail sector analysis with Mukatafa's expertise in public policy advocacy.



Razan Farhan Alaql

Senior Director of Advocacy, Mukatafa

Razan heads the public policy advocacy team and is leading Mukatafa's efforts to advocate for public policy legislation. She leads policy reviews, representation of the private sector to the public sector, and ensures the engagement of both sectors in sectoral policy priorities.



Dr Hiba Amr Rajab

Senior Advocacy Manager, Mukatafa

Hiba leads advocacy efforts with several public sector bodies including the Ministry of Investment, Ministry of Finance, ZATCA, Tax, and Customs Authority, focusing on investment, VAT, and economic growth. She also leads Mukatafa's research and benchmarking with G20 embassies in the Kingdom.



Cyrille Fabre

Director and Head of Consumer Products & Retail Middle East, Bain & Company

Cyrille leads Bain's consumer products and retail practice and family businesses in the Middle East, primarily advising retailers and consumer product companies on strategy, customer experience, digital and performance improvement.



Anne-Laure Malauzat

Partner, Bain & Company

Anne-Laure is a leader in the global retail and public sector/social impact practices and works with retail, leisure and entertainment, and consumer products clients on issues including turnaround and growth strategy, performance improvement, omnichannel strategy, customer experience and advanced analytics transformations.

About Mukatafa

Mukatafa is a private Saudi consulting firm with a focus on legislative and public policy advocacy. We aim to become the most vital link between the private and public sectors, uniting them by cooperating to overcome the challenges and obstacles in the Saudi business environment.

Our purpose is to bring together diverse voices to achieve mutual social and economic benefits. We focus on supporting the Saudi business environment by developing regulations and delivering innovative solutions to enable the private sector to grow in line with the aspirations of the public sector, providing benefits to both sectors and to achieve Vision 2030 objectives of a prosperous and flourishing Saudi economy.

Our mission

We are building an ecosystem of collaboration between the private and public sectors that empowers Saudi Arabia to grow as a prosperous nation with a sustainable future.

Our vision

We are creating a future where everyone wins by enabling the private, public, and third-party sectors to collaborate and integrate to build a prosperous and sustainable Saudi economy.

Our Values

- Compassionate
- Committed
- Dependable
- Ethical
- Agile
- Together

Glossary

GDP

Gross Domestic Product.

ECZA

Economic Cities and Special Zones Authority.

Ejar

A housing and real estate platform.

GOSI

General Organization for Social Insurance.

MHRSD

Ministry of Human Resources & Social Development.

Monsha'at

Small and Medium Enterprises Authority.

MUDAD

A payroll compliance system for Small and Medium Establishments.

QIWA

An electronic platform that provides MHRSD services and solutions to the labor sector.

SABER

An electronic certification and conformity assessment certificate for importers/manufacturers.

SANED

An insurance program designed to support Saudi workers and their families financially during a period of unemployment for reasons beyond their control.

SASO

Saudi Standards, Metrology and Quality Organization.

SFDA

Saudi Food and Drug Authority.

ZATCA

Zakat, Tax and Customs Authority.