

# The Impact Of Coronavirus (Covid-19) Pandemic On Retail Business In Saudi Arabia: A Theoretical Review

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**ABSTRACT:** *Key purpose of this study is to study the impact of coronavirus (Covid-19) crisis on the retail business in Saudi Arabia. The conventional brick and mortar retail business has been following a downward trend over the years with e-retailing exponentially growing during the lockdown period of corona pandemic. It was also noticed that customer preferences and purchasing behaviour are also experiencing a gradual shift from the earlier patterns. In the wake of such adversity, where businesses have collapsed, the study has tried to understand the factors responsible for affecting the retail industries in the kingdom with some key learnings.*

**Keywords:** *Coronavirus (Covid-19), Retail Business, Consumer Behavior, e-retailing, Saudi Arabia*

## 1. INTRODUCTION

The deadly Corona Virus (Covid-19) pandemic has crippled the global economy impacting almost every field ranging from traveling to buying, with Saudi Arabia been no exception. Though, the Kingdom has been among the very few countries in the world that had been quite successful in controlling the pandemic quite efficiently. The committed leadership along with strategic planning, timely and methodological execution of the controlling measures with utmost strictness and discipline has been able to keep the damage quite modest. This can be illustrated by the fact that Saudi Arabia had just 0.2% of the percentage of the global cases in comparison to the other world economies including USA (27%), China (6.1%), Germany (7.6%), Turkey (2.3%) and Iran (4.5%) to name a few (KPMG Report, 2020).

Literature review suggests that different countries adopted different degrees of lockdown or social isolating policies to mitigate the spread of virus, which affected the business quite adversely in all realms(Ref.). The Global economy has entered into a recession due to Covid 19 with global economy likely to contract by 2.2% (IMF Report, 2020). According to the latest IMF projections, the Middle East and the central Asian economies collectively are projected to contract by 4.1% with no dramatic recovery expected even by 2021 as demand for oil globally looks quite grim. The oil-reliant Gulf states are expected to see a 6% real GDP contraction this year, with non-oil sectors comprising 5.7% of that loss (IMF Sept Report, 2020).

However, in the Kingdom largely because of its past experiences of combatting MERS epidemic quite effectively, the Kingdom took effective and timely measures in phasic manner to mitigate the spread while not halting the economic activities completely keeping the damage in control. While some businesses including manufacturing, aviation, travel and tourism businesses witnessed the maximum dip in their revenues, the FMCG products witnessed a major growth during the same phase (IMF Sept Report, 2020). For instance, since the outbreak of Covid-19, essential food products saw a major surge in its demand with a phenomenal rise, whereas the demand for cosmetic goods saw a major dip. But on the contrary, the demand for personal hygienic goods such as side sanitary equipment and hand washing saw an outlier with record sales with both physical retail and online retail over the same time period (Mahajan, 2020).

One of the major observations of this phase is that buying behaviour of the people have changed.

People are living differently, buying differently and, in many ways, thinking differently. Literature review also suggested that habits formed now will endure beyond this crisis, permanently (Ref.) The changes in income levels across different social strata as well as leisure time have brought about different new situations faced by the individuals at personal levels, which are influencing attitudes and behaviors, which can be easily reflected in this pandemic era where the activities have switched from conventional to online, be it shopping, education, business meetings, marriages etc. The trend is quite visible and one section of people globally have seemed to have been adapted to it as well.

Thus, the objectives of the study are to do a review regarding the impact of Covid 19 pandemic on the retail business in the Kingdom as well as to study its impact upon consumer behavior

## 2. REVIEW OF LITERATURE

During last one decade, the Kingdom has witnessed several landmark reforms across various sectors impacting both business as well as business environments(Ref). The manpower including the locals as well as the expatriates working across different sectors, including education, government ministries, airlines, agriculture, and personal business such as food businesses, hardware, and other are providing services to the communities in differential proportions. Among many the nitaqat program which aims to have fixed percentage of Saudi Nationals across all industries as well as NTP2020 as apart of Vision 2030 have brought huge transformations aimed towards creating self-reliance and enhancing non-oil revenues (Ref.). The recent advents in travel and tourism, entertainment and e-commerce had opened hordes of business and investing opportunities for both national and international investors.

Saudi Arabia is among few among those countries where *trend* is followed as part of culture and is always welcomed (Ref). Be it fooding, entertainment, clothing, experiences, new trends are followed and henceforth like other trends, customer behavior in terms of shopping trends have witnessed a sea-change changed rapidly. This could be illustrated from the fact that the conventional system of B2C has diverted to Electronic B2C. Literature review suggests some earlier studies have emphasized and discussion upon factors that drive the population across GCC countries towards online retailing as well their perceptions towards online retailing. The current paper aims to study the impact of the Covid 19 upon the retailing sector to study both the factors and trends supporting this gradual transition from conventional businesses to e-businesses.

### 3. RESEARCH METHODOLOGY

The paper studies the present impact of Covid 19 pandemic on retail sector in Saudi Arabia. The study is descriptive in nature and uses both primary and secondary data for detailed analysis. The secondary data was collected from Ministry of commerce websites, Research Report, magazines, newspapers etc. so as to critically analyse the current situation in Saudi's retail space in the Kingdom as well as its impact on consumer behaviour. This study is probably the first study of its kind in the kingdom to explore the impact of coronavirus on the retail sector.

#### *Retail Business During The Pre-Covid Time In The Kingdom (Conventional Purchasing)*

During and even before pandemic situation, conventional retailers in Saudi Arabia have not performed well (Ministry Media, 2020; Saudi Arabia Retail Report, 2017). Even in earlier dates conventional retail sales performance had declined significantly from 6.1% in 2013 to 2.2% in 2016 (Alpen Capital, 2017). Past studies indicated the reason of the declining of conventional retail sales is due to the increase of the number of e-retailer's customers in the Kingdom of Saudi Arabia from 10.5 Million in 2016 to 19.3 Million by the year 2022 (Facts and Statistics, 2017). Increasing e-retailer's performance's trends posed a significant threat to the conventional retail stores (Arab News, 2017). The rapid growth of e-retailers has triggered unemployment rate in Kingdom of Saudi Arabia (Arab News, 2017; Rahman, 2014). For instance, comparing from the earlier figures pre 2016, the percentage of Saudi employees in the retail sector was almost 17% (270,000) and the remaining 83% consist of foreign workers (Habtoor, 2011). The retail industry witnessed a major transformation with change in the workforce composition following the strict implementation of the nitaqat scheme post 2016 which saw a major reduction of the expatriate workforce, which although contributed to fall in retail customers as well (NTP 2020). The fall followed the implementation of the Saudiisation regulations which aimed at limiting the expat component of the workforce and aims towards reducing the unemployment rate among Saudi nationals from 12.9% in Jan 2019 to 9% by Dec 2020 (Oxford Business Group Report, 2019). The implementation measures saw a major rise in the female workforce entering the labour market supported by granting permission the right to drive since June 2019. Now according to the latest statistics, about 48.4% of the retail workforce is supported by Saudi nationals of which, almost half of them i.e 125,000 are women (Saudi Statistics Report, 2019). Besides these, some studies have also suggested about the other challenges for the conventional retailers which makes it is hard for them to switch from conventional to e-retailing. A study by AlGhamdi, Drew & Alshehri, (2011) suggested that conventional retail stores in Saudi Arabia do not pursue developed countries' progress towards global e-commerce which have also contributed to their limited access (AlGhamdi, Drew & Alshehri, 2011). Moreover, the conventional retail stores in Saudi Arabia have not adapted new technology resulting in poor sale performance which is particularly a major problem faced during Covid period (Al-Rajhi Capital, 2015).

Thus, the already stifled the brick and mortar retail segment brought about systematic changes in form of diversifying its offerings to secure its customer base, providing an increased range of facilities, including leisure and entertainment offerings. For instance, the reintroduction of cinema culture to the kingdom in collaboration with other forms of public entertainment were focussed towards increasing the footfalls in the retail segment. Overall, the general dynamics of this industry are changing in forms of the various factors including the increased cost of doing business, population demographics as well as fall in discretionary income in the Kingdom due to steady falls in oil prices.

### *Retail Business During The Post-Covid Time In The Kingdom*

The already challenged retail industry witnessed some of major changes during the lockdown which can have strong implications for the sector footprints in the years to come. Research evidences have inferred that real household spending is down to just 1.0% at present from the pre estimated figures of 4.1% y-o-y just before Covid- 19 pandemic. This is all despite the fact that the Kingdom enforced an almost partial lockdown, with consumer movement curtailed and only essential stores such as supermarkets, hypermarkets and pharmacies were permitted to remain trading. However, the period saw an exponential growth in e-retailing, even though the purchases made by the customers were more focused on priorities which included principally food essentials and nutritional items like instant noodles, gourmet meals, frozen snacks, dinner, cooking oil, fast mixes and supplements, non-alcoholic drinks as well as health spending.

It has also been reported that the consumers' priorities have changed as many refrained from going out despite movement restrictions been lifted not only because of fear but also jobs lost as well as pay cuts which were more evident in the private sector which indirectly affected the purchasing power of the customer (Media Reports, 2020).

The period also witnessed plethora ways by different governments around the world pumping to contain the economic damages made. Saudi Arabia in the leagues of other top western nations took a proactive position by not only pumping billions of dollars into its economy but also made swift reforms at multi segmental levels to salvage the situation. The retail sector in Saudi Arabia which employs around 2 million people and contributes to 14 percent of GDP was allocated about \$40bn in efforts to provide relief and support to the private sector. Similarly, the government also committed to pay up to 60 percent of the salaries of Saudi employees in the private sector for the duration of three months, as a job retention scheme to support the hard-hit industries (Arab News 2020).

All this resulted in a range of consequences, which had a major bearing on the sub-sectors within the retail domain. For instance, while grocery retail has witnessed a major spike in demand, the non-essential retail such as fashion is facing a tough time and still has not recovered fully. A surge in demand for goods to boost personal hygiene at both individual level, for homes, workplaces etc. been noticed and so do for the items such as soap, hand washings, bathroom sanitary appliances, disinfectants, towels, gloves, home-cleaning goods including floor-cleaners and cookware cleaners etc. This led to majority of retailers switch to hybrid and omni channels, trying differential methods to attract customers with digital marketing becoming one of the most sought methods to grab's customer's attention. The period saw new digital models been tried with principal focus on promoting e-purchasing.

#### *E-Purchasing*

The concept of e-retailing and internet purchasing gained recognition quite early however been popular mostly in developed countries. In Saudi Arabia too, the e-retailing trend was picking fast with numbers increasing organically over the years (Fig. 1). The trend however gained momentum during the corona pandemic as movement was curtailed and so do social isolation. The trend was fast picked by fast foods, regular restaurants and other retailers who were utilizing different mobile applications to divert the customers and adopt the new trends offered by e-business trends. The model was quickly adopted by the some of the retailers including Carrefour and Hyperpanda which included free home delivery with certain limitation, to attract the customer base.

Figure 1 predictions are predicted in 2017 according to facts & statistics of Saudi Arabia. The

status of contemporary situation could be more alarming due to the pandemic situation of COVID.

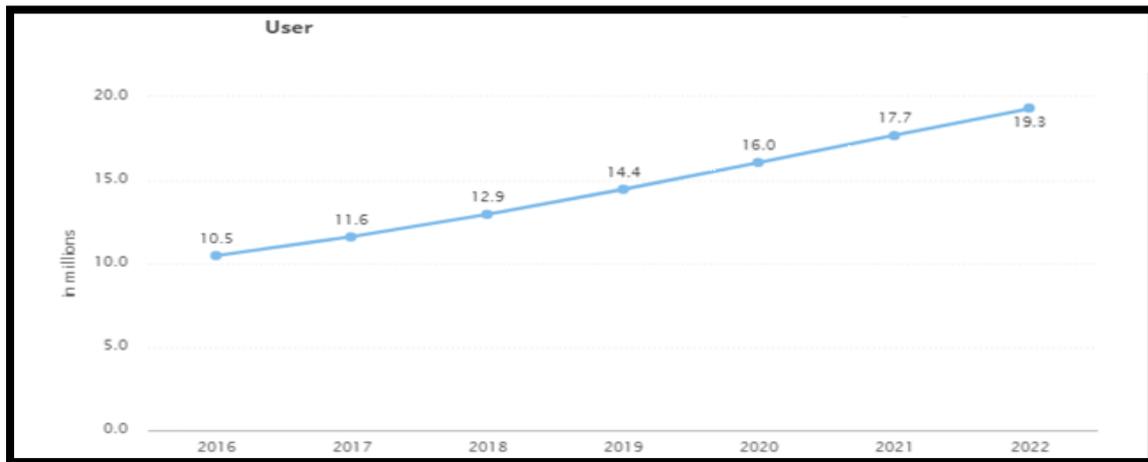
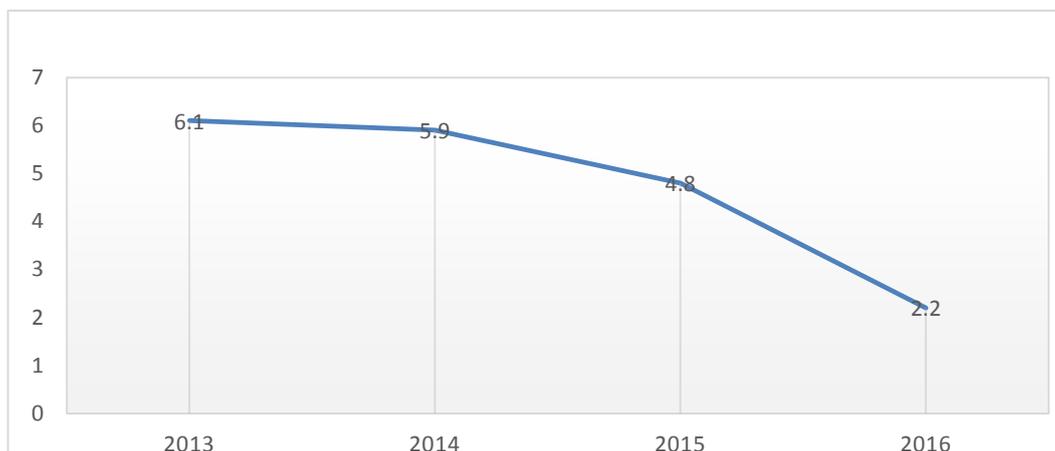


Figure 1. (Increased number of users of e-retailing in Millions)

Source: (Facts & Statistics Saudi Arabia, 2017)



Source: GCC Retail Industry (Alpen Capital, 2017)

Figure2. Saudi Arabia Retail Sales Performance (2013-2016)

### *CUSTOMER PURCHASING BEHAVIOR*

Understanding customers' behavior types plays an important role in supporting businesses to achieve high levels of customer satisfaction (Syaekhoni et al., 2017). Offlate, customer behavior analysis has become the focal point of attention among various industries especially those having B2C models since e-retailing unlike the conventional retailing does not get a chance to interact with the customers directly to understand the needs, liking and individual perception.

There are many factors that influence an individual's decision-making processes, including shopping habits and purchasing behaviors which are cultural, social and religious, personal and psychological (Rani, 2014). Cultural factor which too is a combination of character, behavior and a self-identification of human being too has a strong impact upon buying behaviour. Thus, the overall purchasing behaviors consist of three phases which are the *individual*, *societal* and *situational*. Since, current pandemic situation is situational, thus

behavior of customers is changed due to situation.

### Conceptual Framework



Figure 3: Conceptual Framework

---> Denotes Decline in  
—> Denotes Increase in Sales

### Sales

Similarly, from the customer's perspective, there are two types: existing and new. While the existing customers are fine and need just constant monitoring and regular feedback, making new customers is the real challenge as it is getting really difficult for the organizations to retain the customer base while adding new to the existing lot.

## 4. DISCUSSION

COVID-19 pandemic has created novel challenges in front of almost every sector including businesses, education, real estate, hospitality, retail etc. So, what are the key learnings from the retail industry experiences and what is the road forward? The lessons are as follows.

The focus should be on increasing the footfalls. Some of the industries be it education, travel, tourism, e-commerce, rely heavily on the fact that how many customers visit them on daily basis. Irrespective of its type, conventional or e-retailing, the principal focus should be on getting volumes of customer transactions which are mainly derived from footfalls. Practically, every retailer should focus on interacting more with the customers using various interactive and novel ideas including social media and digital marketing to be used as fulcrum to gain traction in market.

E-commerce is booming and therefore using digital marketing effectively that is targeted towards one's target audience is the key to success. Understanding the needs of the target audience with the usage of new generation tools in digital marketing including bot, digital promotion, WhatsApp flyers, Facebook is a must for every retailer in the coming times. For instance, Grocery retailer Danube reported that its online sales increased with 200 % during the corona pandemic with a 400 percent increase in new app downloads as it was one among the first in the kingdom to promote its products quite effectively digitally.

Another key learning while interacting with the e-retail platforms was that common mistakes made by e-commerce retailers which they often neglect was that many a times out-of-stocks or delay on delivery, limited payment options or product quality being below the expectations were reported. These could have grave

consequences in the future and henceforth proper inventory management is required. Thus, the retailers have a lifetime opportunity to strengthen their online presence.

Understanding the consumer mind and preferences along with customer and community engagement is the key to success. In one of the recently published studies it was reported that consumers in the Kingdom currently prefer to be able to have contactless payment over better prices or promotions (Kantar 2020). This points to the fact reassuring your customer about the health and safety measures adopted by the retail chain so as to protect both the customers and its employees have conveyed the right message to the targeted audience and therefore should be adopted as an indirect effective measure to increase the customer base. Here innovative ideas along with creative thinking in redesigning store planograms and layouts could be used effectively to convey indirect messages to the audiences at large to portray the right message. Retail shops becoming Covid-19 compliant, adopting all precautionary measures such as providing customers with masks and gloves, increasing sanitizing protocols, maintaining social distancing, payments by cards only, performing highest cleaning standards are some of the effective measures to help resurrect the retail businesses.

## 5. STUDY LIMITATIONS

This study was mainly descriptive based on secondary data, relevant concepts and information. Future studies can be considered using the same model with empirical approaches. While the present study considered only four constructs, future studies could extend the considered constructs and deliberate other constructs too. Data based future studies can be done using questionnaires so as to assess the issues both at the micro and macro levels focusing on specific industries rather generalizing them.

## 6. CONCLUSION

Key purpose of this study is to study the impact of coronavirus (Covid-19) crisis on the retail business in Saudi Arabia. The conventional brick and mortar retail business has been following a downward trend over the years with e-retailing exponentially growing during the lockdown period of corona pandemic. It was also noticed that customer preferences and purchasing behaviour are also experiencing a gradual shift from the earlier patterns. In the wake of such adversity, where businesses have collapsed, there are some essential learnings that could be made from the retail industry experiences which may help the smaller players and other retail entities to manage their businesses better and respond rapidly to the changing dynamics of demand era.

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