ABC Smart Incense

Market Research

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Introduction

ABC is a revolutionary Saudi Arabian start-up company that extracts Agarwood from Indonesia's lush forests. The Company specializes in the manufacture of pure first-class Agarwood products, such as incense.

Incense is an aromatic biotic substance that releases fragrant smoke after burning. Around the globe, incense is used for numerous reasons, such as aesthetic reasons, aromatherapy, meditation, various ceremonies, and so on.

Fragrances are more than fresheners in the Middle Eastern culture, it has roots in tradition, religious commandments and rules of politeness. Agarwood or Oud is the name of a tree which is used in the production of very luxurious incense and perfumes and is one of the finest of natural scents.

The Arab world has been famous for the Bakhoor-scented wood chips soaked in fragrance oils, that burn in public places and private homes throughout the Middle East.

ABC offers its customers high-quality heritage Oud and incense products that are safe to use, are efficient and smart.

The Company's product range includes over 20 types of ABC incenses all blended with various ingredients and providing unique aromas. ABC has a strong presence in the GCC (Gulf Cooperation Council), and the MENA (the Middle East and North Africa) region. The Company also operates point-of-sale branches in European countries such as Italy and France. Overall, the Company has more than 400 brick-and-mortar stores where consumers can purchase ABC's Agarwood incense.

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Industry Overview

As a standalone industry, the incense industry does not exist; therefore, a broader research approach was used. This approach involved the analysis of industries and sectors that are related to pleasant smells and aromas.

Among the reviewed industries and sectors were:

- **Air Fresheners** – this segment did not contain usable and relatable information with the incense sector.
- **Fragrance Delivery Systems** – this segment was out of the scope and irrelevant to incense.
- **Scented Candles** – this segment did not offer useful information that can relate the incense landscape.
- **Air Care** – this research mentioned general data points regarding incense; we abandoned it since it didn't offer more incense details.
- **Aromatherapy** – information was hard to come by – especially within the GCC and MENA region.
- **Essential Oil Diffusers** – this information could not be related to incense.
- **Wax Melts** – this data looked promising, however not a lot could be retrieved in regards to the GCC/MENA region.
- Lastly, the **Cosmetics** and the **Fragrance** sectors were overviewed.

Available, usable, relatable and most relevant data for the GCC and MENA regions came from the Cosmetics and Fragrance sectors. These sectors were used as a proxy for the analysis of the incense industry for the region.

The importance of these two sectors is that the Cosmetics (Beauty) and Fragrance (Perfume) sectors directly included incense as part of their sectors' product offering.

Below are a couple of data points showcasing the details of these two industries in the MENA and Gulf region.

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	Cosmetics	Fragrance/Perfumes
Market Size	•The cosmetics market in the middle east is projected to reach US $32.2 billion by 2025 Source	•The size of the fragrance (perfume) market in the Gulf Region is $2.7 billion. Source UAE consumers spent $401 million on fragrances in 2014 – a 28% of the country's total beauty and wellness market for the year ($1.4 billion), and growing 5% annually to reach $485.5 million by 2018. Source
Market Share	•Kingdom of Saudi Arabia and the UAE together accounted for a quarter of the MEA's market in 2017. Source	•Looking at the expenditures, consumers in the Gulf region alone, spent $ 2.8 billion on perfumes in 2018, and this number is expected to increase to $ 3 billion by 2022. Source •Saudi Arabia accounts for the largest share of the perfume market in the Gulf at about 60%. Following are the UAE with 22%, and Kuwait and Oman. Source
Annual Growth Rate	•Saudi Arabia and the United Arab Emirate's cosmetics market will grow by 12% and 5.8% respectively. Source	•The Gulf's fragrance market is expected to grow at an annual growth rate of 3% between 2019 and 2024. Source
Trends	•Adoption of Natural and Personalized Products Source •Rapid Urbanization & Tourism Source •A key trend for the region in cosmetics and personal care is the products' compliance with Halal law. These are products that don't contain ingredients from animals that were slaughtered in a non-Halal way). Source •The rising demand for enhanced functionality and multiple advantages from a single product is a significant factor driving the need for advanced multifunctional ingredients in personal care and cosmetic products. Source	•Increase in disposable incomes. Source •Growth of the regions' Tourism sector. Source •Premium volume down, value up: With the availability of smaller packs, premium fragrances are perceived as being more affordable. Source •Growing preference for premium products. Source •Brick-and-mortar establishments dominate the landscape. These establishments mainly include shopping malls which provide a source for entertainment and air conditioning. E-commerce is likely to remain a small but fast-growing sales channel in the Gulf. Source •In the United Arab Emirates, manufacturers are continually running major promotions, most noticeably through free refill or buy-one-get-one-free offers. Source •Brick-and-mortar players in MENA have been following different go-to-market strategies such as distribution partnerships with third-party e-commerce pure players in addition to launching their brands online. Source •The world of luxury is moving towards experiences and steering away from material goods. Source •Increase in demand of prestige niche fragrances by men. Source •Preference of neutral perfumes that contain oriental ingredients such as Oud and musk. These oriental fragrances are the perfect gift during holidays and special occasions. Source •Layering – Three to seven different fragrances worn at the same time •Oriental flavor note is in demand •Creative Box & Bottle design almost guarantees a sale •Personalization – enabling customers to create their bespoke Fragrance by increasing/decreasing the note's intensity

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		•Limited-edition fragrances Source

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Market Overview

Information available on the demographics provider - World Population Review's website indicates that GCC's population is about 54 million people. Furthermore, the average age of the population is 27 years, and most of the GCC nationals are under the age of 25, as stated in Middle East Journal of Age and Ageing's report. This suggests that GCC has quite the young population that is more open to using cosmetics and fragrances.

Each of the six-member states has a sizeable number of expatriates with an average of almost 47%. They constitute a large group of consumers, representing many different cultures, which may result in different consumer behaviors than among Arab society.

The Gulf economies being young, large, and growing fast, constitute a retail market with a lot of potential for cosmetics and toiletries.

	Oman	UAE	Saudi Arabia	Bahrain	Kuwait	Qatar	Total / Average
Population (mil)	5.1	9.8	34.8	1.7	4.2	2.8	58.4
Income per capita (USD)	15,474	43,103	23,139	23,504	32,031	64,781	33,672
Total retail sales (USD, bln)	11.9	70.9	103	1.5	16.4	12.4	216.1
Cosmetics sales (USD, mil) in 2009	156	1,638	5,000	125	370	102	7,391
Retail sales Annual Growth, 2010-2014	7.6%	5.3%	7.7%	N/A	6.1%	9.7%	N/A
Expatriates 2019	40.02%	80%	32%	50%	70%	10.5%	47%

The UAE and Saudi Arabia are at the forefront of GCC cosmetics and toiletries sales, having the largest population and a considerable number of tourists. Additionally, Saudi Arabia has the 2nd lowest percentage of expatriates in the Gulf region. This means that there is a significant number of GCC national consumers with high disposable income.

The UAE owes the dynamics of its market not only to its sizeable population and tourism but also to its strategy of becoming a local hub for the beauty and skincare industry. Bahrain, Kuwait and Qatar have almost all their population living in capital cities. There are also high percentages of expatriates.

Urbanization and development of shopping centers and malls played a vital role in the shift of shopping habits in these developing countries. Shopping behaviors and market trends in those countries are similar to the UAE, specifically to Dubai.

A 2016 study on the retail market of Beauty and Personal Care products in the GCC region managed to identify some of the more relevant factors that are driving the demand for such products in the region.

Factors Driving Demand

Young Population

With the average age of the GCC region's population being 27 and most of the GCC nationals being 25 years old, the beauty and personal care sectors are versatile and display a set of specific traits and behaviors:

1. **Openness and awareness of new trends. A tendency to trust advertisements.**

   They follow new trends and are easily persuaded by advertisements, as they seek information on cosmetics on the Internet, in magazines and through other channels.

2. **Limited budgets.**

   Most of the young customers are students or unemployed, have limited financial resources and tend to be very price-sensitive.

Expatriates

More than half of the GCC population consists of expatriates (persons residing in a country other than their native country). The market for cosmetics and toiletries in the Middle East depends mostly on GCC nationals, especially upper and middle-class women. The vast majority of non-nationals are low-income blue-collar workers, who mainly come from Asian countries.

Premium Products and Spending Habits

The GCC regional consumer prefers purchasing high-quality goods and products of global brands, and have been known to be appreciative of luxury and willing to pay premium prices for exclusive and outstanding produce.

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Per capita spend on premium cosmetics in the countries of the GCC, has been increasing at a remarkable rate. This (in part) is due to the considerable group of GCC nationals with disposable income that can afford to purchase premium brands.

As the young generation enters the job market and disposes freely of their income, the market for premium cosmetics is expected to grow. These consumers will have a good awareness of products, and their shopping will be value-driven.

The GCC region as a whole is set to see an increase in the number of wealthy residents. According to data presented by the Market Research company - Innovius Research, the number of people with more than $30 million in assets is forecast to rise from 7,052 in 2013 to 9,498 by 2023. The number of centimillionaires (people worth over $100 million) is set to rise from 1,500 to 2,044. The number of billionaires in the GCC is expected to grow from 108 to 146 over the same period.

Tourism

The Hotelier Middle East – a publisher in the hospitality sector, in an article estimate that in 2018 approximately 1.7 billion tourists visited the GCC region. The money spent by these foreign visitors should not be underestimated. Both external and internal tourists buy cosmetics to take back home for themselves, in addition to as gifts for friends and family.

Fragrances are among the most favorite gifts tourists consider purchasing. Oud based and French-style fragrances with flower and musk scents are considered to be an authentic gift from the Middle East.

According to the online news company – Al Arabiya's article, The Kingdom of Saudi Arabia and the United Arab Emirates mainly prefer traditional Arabic perfumes. In contrast, Kuwait is more of an experimental market where consumers are more open to a mixture of Eastern and Western fragrances. Among the most popular types of Oud are the scents of Saffron, Sandalwood, Amber sweat, Musk, Henna, and Jasmine as reported by multiple sources – Media India Group, Magltk, Clozette, and How To Spend It.

The region's most preferred fragrances are the Amber, Oud, Bukhoor, and Rose-based fragrances. The online media company AB Newswire in an article states that GCC manufacturers are continually investing in bringing innovative fragrances in the market, which are infused with natural oils, such as Lavender or Mint.

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Distribution Channels

Cosmetics and toiletries are mostly sold in the Gulf countries in shopping malls, especially the mass brands, which sell in supermarkets and hypermarkets located there. The prevalence of these distribution channels is driven by GCC consumer's preference for buying in shopping malls. Given the consistent hot weather, shopping malls represent the ideal place for both - shopping and spending free time.

In the UAE, more than 35% of the cosmetics are sold in super-and hypermarkets. Salons are usually responsible for generating around 15% of the sales. Other distribution channels include standalone stores in malls, convenience stores, bazaars, spas, and beauty clinics, amongst others.

However, there is a societal revolution most commonly seen in the regions' 'under-30-years-old' population where Internet usage penetration rate soared to an average 76% in the GCC vs 53% globally. This can be seen as one untapped sales channel for Beauty Care and Fragrance products in the GCC and MENA region. Currently, online Fragrance sales are limited to only 3% in the Middle Eastern area as reported in Al Arabiya's article.

Half of the GCC regions' population consists of persons below the age of 30. They are digitally connected, curious, value-conscious, and have radically different purchasing behaviors compared to their elders.

In their report, Walpole - the official sector body for UK luxury, informs that GCC's 'under 30' population is less subjugated to international brands. These spenders are influenced by social media and digital celebrities – in particular those digital celebrities whose advice is followed wholeheartedly.

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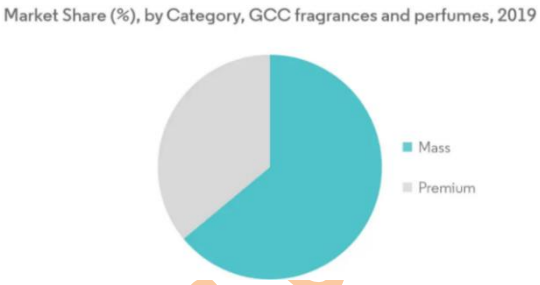
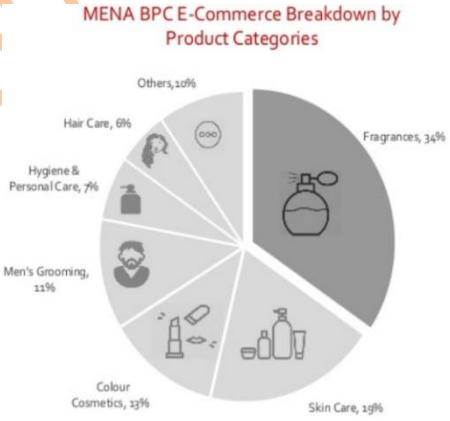
Market Segmentation

In order to understand the Gulf and MENA region market better, an overview of a couple of types of market segmentation is showcased.

One basic market segmentation surrounds the exclusivity of the product. This segmentation can be seen in the report from the Market Research Company – Mordor Intelligence. Based on this type of segmentation, the market is segmented on Premium and Mass products. Due to the affordable cost, the dominant fragrance products are non-premium (more than 60% of the market). On the other hand, Premium products are expected to be in substantial demand in the MENA region.



Another fundamental segmentation stated in the report from the Market Research Company – Transparency Market Research, is based on the distribution channels. The GCC fragrance market is segmented on online, retail, departmental stores, brick and mortar stores, and other.



The online channel in the region remains yet to be fully utilized, but based on the Beauty and Personal Care items that were bought online, Fragrance had the most sales (34%), as it's emphasized in venture capital investor Company - Global Millennial Capital's report (slide 15).

Global Millennial Capital's report (slide 12) also informs that in 2016, Fragrance represented the most significant segment from MENA's Beauty & Personal Care market (29.3%) valued at USD $3.3 billion.

Two companies - Arabian Oud Co. which occupies 23.09% of the market share, and Abdul Samad Al Qurashi Co. with 15.3% of the market share, are the largest fragrance providers in the GCC region.

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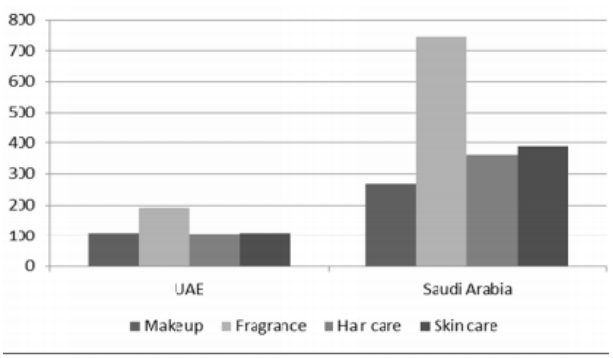
The aforementioned 2016 study, points out that among the different cosmetic products in the GCC region, fragrances are the bestsellers, equally popular among male and female consumers. Fragrance is the region's most important item of the beauty budget for the GCC nationals. In the UAE and SA, in 2014, Fragrances Accounted for 31% and 28% of the Total Beauty and Personal Care Market.



Market size for different kinds of cosmetics in selected GCC countries: the UAE and Saudi Arabia USD million

The dominance of Fragrance in GCC beauty budgets is reflected in the highest market share in the UAE and Saudi Arabia. Fragrances are not only related to tourism and climatic conditions, but also to cultural dynamics that encourage GCC nationals to make significant expenditure on this type of product.

Arab Women in the GCC as Customers

The highest expenditures on cosmetics and toiletries in the GCC region is accounted for by women; therefore, it's relevant to understand some aspects of their consumer behaviors:

- Many Arab women can go shopping only when assisted by a male family member, and many rely on their families when it comes to driving.
- Some Arab women do not have their disposable income.
- Middle-class Arab women tend to buy their cosmetics in supermarkets located in shopping malls while shopping for groceries or in other beauty shops in a shopping mall. While shopping, they are often accompanied by family or at least another female relative.

Competition

10 companies headquartered in the GCC region were analyzed to gain deeper insights into the incense landscape in the area.

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The Google Spreadsheet where the detailed information is presented can be accessed via following this link.

The analysis of the competition provided the following insights:

- The majority of the competition has its headquarters in Saudi Arabia (60%), followed by 30% located in the United Arab Emirates and Kuwait.
- All of the competitors sell their products online, as it represents the easiest way to present their offering to the consumers in the GCC/MENA region and beyond.
    - 30% of the competitors have their distribution solely online, either via their website or other 3rd party online retailers.
    - Interestingly, only 30% of the competitors have their products listed on major online retail websites such as Amazon or eBay.
    - The remainder of the competition (70%) besides the online distribution channel, also uses brick and mortar points of sale. Among these traditional distribution channels are Shopping Malls, Boutiques, Stores, Galleries, Airports, Hotels, Universities, and so on.
- 70% of the competition offers its products within the GCC and MENA regions. The remaining 30% of competitors have branches in other countries (in different continents), making their access to new markets more comfortable. These new markets include the US, the UK, France, and Italy, as well as other countries.
- All of the competitors' main product is perfume. Accompanying perfumes are other product types of which most commonly encountered are Oud and Incense products. These products mainly include Agarwood or Bakhoor chips, as well as various Oud oils. The base ingredients of the most expensive and best-selling incense products the competition offers are Amber, Rose, and Musk.
- Based on the type of incense, the size (amount), and the ingredients included in the product, the prices for Agarwood incense products begin at nearly $13 and can reach up to $2,000.
- 30% of the competitors had collaborations with major brands. These brands either provided additional distribution channel for their incense products, acted as a shipping partner, or simply promoted their product under the collaboration banner. An example includes world-renowned brands such as Disney or Rolls Royce.

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Research Recommendations

1. Online make only a minuscule percentage of the total fragrance sales in the GCC/MENA region. However, with the current global crisis, people are likely to spend more time online, which provides ABC with an excellent opportunity to engage consumers digitally. The key is using digital engagement to introduce new fragrances and build brand awareness before customers even set foot in a store. Online in-real-time education is another form where customers can be educated and informed on ABCs products without committing to a purchase, yet.
2. Airports should be kept in mind as another ideal location where more physical points of sale could be established. The sizeable fluctuation of inbound and outbound tourists should not be underestimated.
3. Another option to consider is partnering/collaborating with IT-savvy companies that could provide filtering technologies across ABC's campaigns. This enables reaching a higher number of consumers while ensuring that they are matched with the most appropriate experience – whether a deluxe physical sample or a digital-only experience (Source).
4. An additional option is to present ABC's incense alongside a theme. This theme will last for a limited time and could spark the customers' fear of missing out. For example, the subject could include the four seasons, wherein only for a limited time (as long as the season lasts) a particular set of incense (that are mixed with ingredients specific for that period) is offered.
5. One approach to expand ABC's market share is to target markets with a large concentration of members of the Muslim religion beyond the GCC/MENA regions. Incense represents a quite important aspect of the Muslim tradition (everyday uses, ceremonies, weddings, burials, religious purposes etc.). Here lies the potential of targeting Muslim people beyond the GCC/MENA regions.
6. Based on the growth approach ABC has previously used, and the approaches seen in the competition analysis, having a significant physical presence in other markets represents an already proven growth tactic. In addition, partnerships and joined collaborations with

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exclusive, prestigious and luxurious brands are another way to grab a piece of the market share and attract consumers interested in high-end luxurious incense products.

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