Retail & Consumer industry

Widespread boycotts in Muslim countries hammer western brands

Rejection of goods based on perceived political agendas over Israel-Gaza conflict hitting revenues

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Boycotts of western food and drinks brands in Muslim countries are hitting the revenues of multinationals and their franchise operators, exacerbating the impact of a global consumer slowdown on their bottom line.

From Egypt to Indonesia and Saudi Arabia to Pakistan, consumers are shunning goods produced by companies such as Coca-Cola, KFC, Starbucks, Mondelez and Pizza Hut, in protest against their perceived support for Israel in the war in Gaza.

"This event is unprecedented. The length of this conflict is unprecedented. The intensity is unprecedented," said Amarpal Sandhu, chief executive of Americana Restaurants, which operates brands such as KFC, Pizza Hut and Krispy Kreme across the Middle East and Kazakhstan, on an earnings call on Thursday.

The boycott is the most widespread in recent memory, promulgated through social media and spurred on by governments and Boycott, Divestment, and Sanctions (BDS) movements — underscoring how social campaigns can flare up suddenly and sting corporate behemoths.

During second-quarter earnings updates, many multinationals were hesitant to address the issue head on, referring vaguely to geopolitical tensions, while a few attempted to directly quantify the impact.

An empty Starbucks coffee shop in Cairo. While multinationals are able to absorb the hit to sales, franchise operators are getting off less lightly © Islam Safwat/Bloomberg

Luca Zaramella, chief financial officer of snack maker Mondelez, said the boycotts "remained a headwind", weighing down Middle East sales growth by 2 per cent in the second quarter. Beauty group L'Oréal equally said the boycotts had a 2 percentage point drag on growth in the first half of the year.

"The overarching strategy that many of these companies have undertaken is to suppress the noise around the boycotts," said Danilo Gargiulo, an analyst at Bernstein. "The last thing you want to do is reveal the impact, and potentially bring further action against their brands."

While multinationals are able to absorb the hit to sales as a result of their geographic and category spread, their franchise operators in countries where boycotts are rife are getting off less lightly.

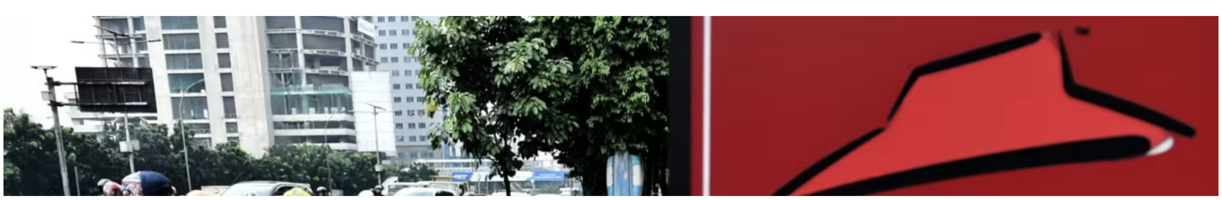
Americana Restaurants, which is owned by the Saudi sovereign wealth fund and Dubai-based investor Mohamed Alabbar, on Tuesday said its second-quarter profits were down 40 per cent compared with the same period last year, despite opening 81 restaurants in the first half of this year.

"The impact varies across geographies, but we would say the boycott is still there," Sandhu told analysts.

KFC and Pizza Hut did not immediately respond to requests for comment.

Western brands that have spoken out on the boycotts have strongly rejected the perception that they support a particular side in the conflict. Chris Kempczinski, chief executive of McDonald's, who said at half-year earnings that the war was still "negatively impacting" the business, has previously denounced "misinformation" that was hitting its local operators.

In Pakistan, home of the world's second-largest Muslim population after Indonesia, the government in July promised to form a committee to identify and boycott products of companies that "directly or indirectly" support Israel or its army.



The boycott is the most widespread in recent memory, promulgated through social media and spurred on by governments © Bay Ismoyo/AFP via Getty Images

The move came after thousands of activists from an Islamist party last month shut down a thoroughfare near the capital of Islamabad for a week to demand that the government ban all products tied to Israel.

Coca-Cola İçecek, the bottler of Coca-Cola in Pakistan, reported sales volumes in the country fell almost a quarter year on year in the first three months of 2024, which it blamed on "macroeconomic headwinds" without mentioning fallout from the war in Gaza.

Karim Yahi, chief executive of the Turkey-based group, when asked about the boycotts in a May call with analysts acknowledged that "with our geography . . . there are sensitivities and there are pressures because of the war in the Middle East".

"We had a full advertising blackout for five months," said a person familiar with the US-based Coca-Cola company's decisions in Pakistan. "It's a crisis, so we wanted to lay low."

Some stores replaced Coke drinks with less stigmatised local alternatives, but those that continue to stock Coca-Cola products have faced harassment, the person added.

A top-20 investor in CCI said his company had been paying keen attention to the boycott, although it was difficult to untangle it from the effects of Pakistan's deep economic malaise. He added that any impact on CCI would probably be short lived.

CCI, the Coca-Cola company and PepsiCo Pakistan did not respond to requests for comment.

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In Malaysia, Starbucks's local operator Berjaya Food reported a second consecutive quarterly loss in May due to the boycotts. It posted a loss of RM30mn ($6.7mn) in the quarter ended March 31, while revenue tumbled 48 per cent.

Starbucks in Indonesia has repeatedly said it is not affiliated in any way with the war in the Middle East. In the capital Jakarta, many Starbucks stores carry signage on doors and tables clarifying the company's position on the conflict.

"Starbucks has no political agenda. We do not use our profit to fund any government or military operations. Neither Starbucks nor Howard Schultz financially supports Israel in any way," reads the message on posters, referring to the Seattle-based company's former CEO and its most well-known leader.

Bursts of anti-western sentiment have sometimes ignited violence. A mob attacked a Starbucks in south-eastern Turkey this week after the assassination of Hamas's political leader Ismail Haniyeh, local media reported.

In Egypt, meanwhile, PepsiCo faced a backlash in May when it launched an ad campaign with giant billboards and the slogan "stay thirsty", which appeared to taunt boycotters. Television adverts for Pepsi featuring big stars such as singer Amr Diab and Mo Salah, the Egyptian Liverpool footballer, drew massive criticism from social media users.

PepsiCo did not immediately respond to a request for comment.

There is less interest from Egyptian consumers in brands such as Coca-Cola and Pepsi © Islam Safwat/Bloomberg

"I think a lot of international companies have lowered their profile, and have toned down a lot of communications to avoid provoking counter campaigns," Alaa Hashim, co–chair of the American Chamber of Commerce industry and trade commission in Egypt, told the Financial Times.

The war in Gaza has coincided with a huge surge in inflation in Egypt as the country grapples with a crippling dollar shortage that led to a sharp drop in the value of the Egyptian pound. Purchasing power probably accounts for some of the drop in sales experienced by boycotted companies, Hashim explained.

In Cairo, Hazem Tamimi, who runs a supermarket in the upscale Zamalek neighbourhood, said his sales of Coca-Cola, Pepsi, Ariel, Persil, Cadbury and Nestlé products had halved.

Even the well-off residents of the area "might call to ask for mineral water, but specify they want an Egyptian brand instead of Nestlé or [Coca-Cola- owned] Dasani", he added.

The boycotts come as western-owned brands were already under pressure outside the west. Conglomerates are facing stiffer competition from local groups, and losing share as a result.

"Over the past 10 years we have seen the narrative shifting towards more protectionism, tradition, national champions and local brands," said Bernstein's Gargiulo. "The narrative that western brands are premium, while local goods are of lesser quality and cheaper [has receded]."

Madeleine Speed in London, Humza Jilani in Islamabad, Heba Saleh in Cairo, Chloe Cornish in Dubai, Adam Samson in Ankara, Anantha Lakshmi in Jakarta and Ahmed Al Omran in Jeddah