

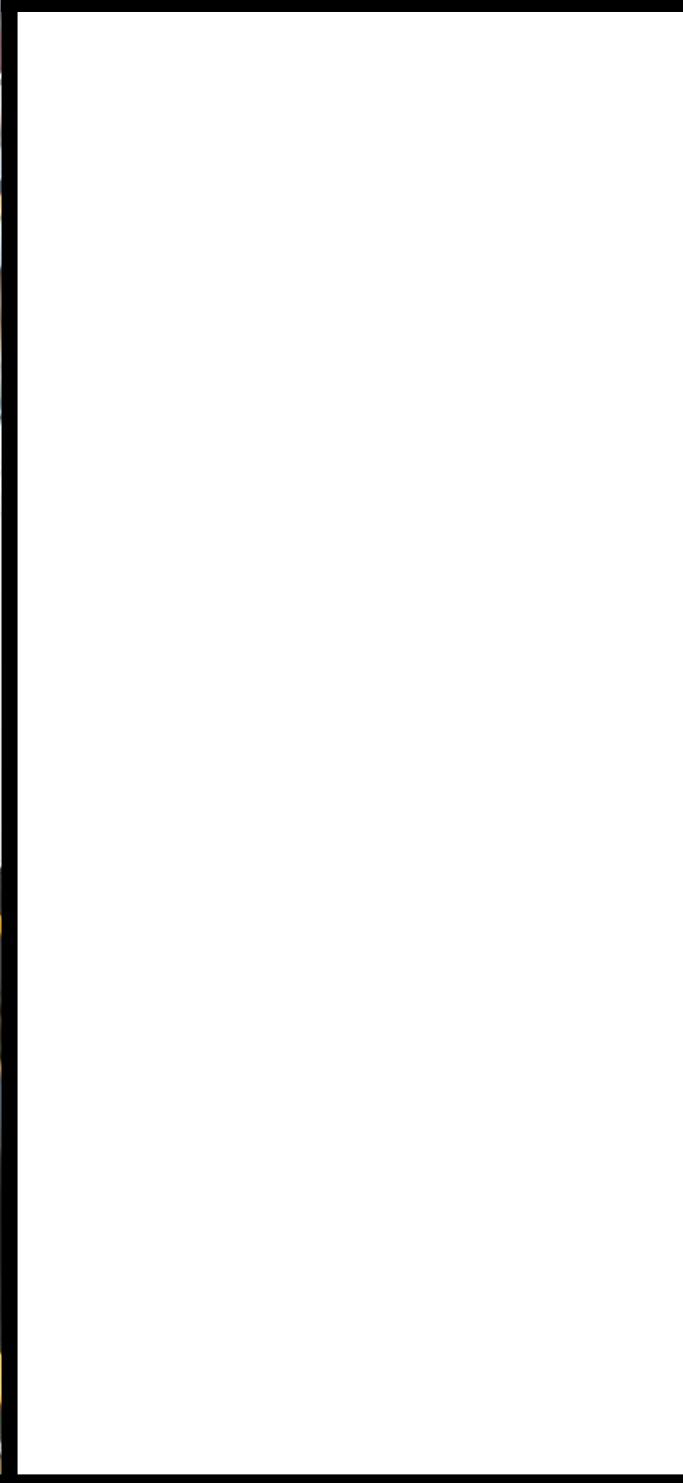


# Navigating the new retail reality

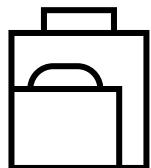
Views of Middle Eastern Retail CEOs



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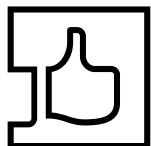


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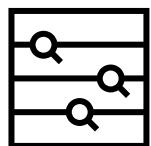
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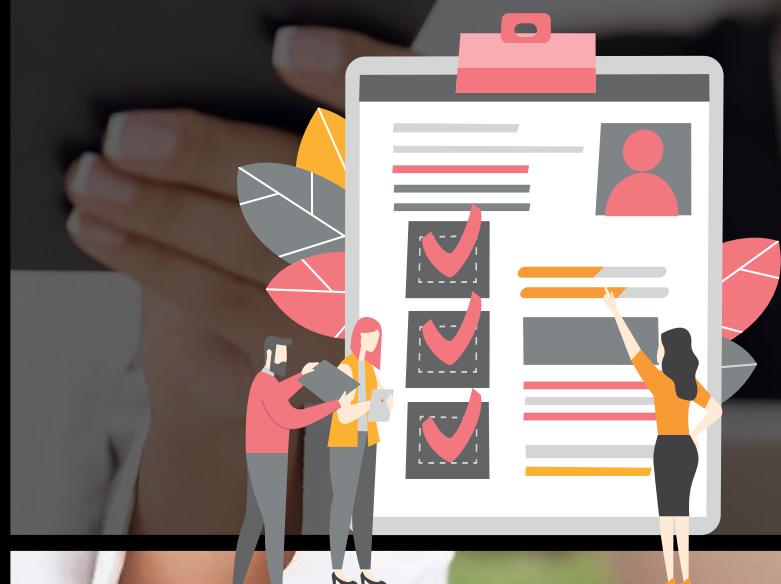
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## Survey methodology

In 2018 and 2019, PwC Middle East, in association with The Retail Leaders Circle conducted 10 interviews with Middle Eastern retail CEOs to gain their perspectives on the market and their outlook for the year ahead. We interviewed a mix of retailers, online players and mall operators.

We combined the views of our retail CEOs with what we are hearing from our recent 22nd Annual Global CEO Survey and the 22nd Annual CEO Survey - Middle East Findings. For ease of navigating this document, we will refer to the CEOs interviewed as retail CEOs.



# Foreword

Change is the one constant for retail CEOs in the Middle East. Like retail leaders across the world, they must keep pace with new technology that is changing the way people consume products and services. But in the region, the changes go far beyond the disruption of online retailing: consumers are more price sensitive, they are less brand loyal and economies are reforming.

Despite the breadth of their experience and the products they sell, the retail CEOs interviewed for this survey all identified very similar concerns: first, how to develop the agility to respond quickly to market changes and new customer demands; second, how to attract and retain talent; and third, how to keep up with the pace of advances in digital technology, all against the backdrop of macro-stability in the region.

Almost all of the retail CEOs we spoke to have experienced a softer market in recent times and most said they were targeting low single-digit growth this year, at best. While this would be considered very acceptable in mature markets, it's a far cry from the region's double-digit growth of years gone by.

Some believe the sector is in decline: macro issues such as oil prices and geopolitical instability have created unpredictability, which has had a direct impact on retailers.

According to PwC's recently launched 22nd CEO Survey - Middle East Findings, 28% of Middle East CEOs across all sectors believe the global economy will improve over the next year – a decline from 52% in the prior year. This cautious outlook is reflected in the fact that more than two-thirds (68%) of regional CEOs put operational efficiencies at the top of their

list of planned activities to drive profitability in the next 12 months.

The retail CEOs we spoke to are similarly focused on streamlining costs, however they also identified expanding areas giving them plenty to be optimistic about. The beauty sector, for example, continues to experience phenomenal growth, helped by social-media influencers such as Dubai-based Huda Kattan, who has more than 33m Instagram followers.

One online retail CEO we spoke to said 2018/19 would mark the 'coming of age' for online retail in the Middle East and expects e-commerce to account for close to 40% of the market in the future. This view is further supported by Amazon's recent announcement to create a Middle East marketplace.

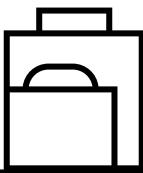
Our report sets out the views of retail CEOs across three broad categories: technology, changing consumer behaviour and macro influences. We would like to thank our contributors for their informative responses and we hope you enjoy the insights they provide.



**Norma Taki**  
Consumer Markets Leader  
PwC Middle East



**Panos Linardos**  
Executive Director  
Retail Leaders Circle



# Online retail gathers pace

In the Middle East, online retail still accounts for a smaller share of the market, at an estimated 2-3% compared with 10-15% in developed western economies – yet that share is growing quickly. Our 2018 Middle East Total Retail consumer survey for example, found that 53% of respondents now shop with Amazon, up 4% since 2016. Using the site also influences customers broader shopping habits: 45% start their product search on Amazon, and 41% use it to check prices.

Demographics in the region also support the growth of online: 60% of the population in the Middle East and North Africa (MENA) is aged under 30<sup>1</sup> and this young population is eagerly adopting new technology. In the Gulf Cooperation Council (GCC), smartphone penetration was at 77%<sup>2</sup> in 2018, according to the mobile-phone industry body GSMA.

Online retail growth is also being boosted by global e-commerce giants competing for shoppers' attention and spending. Amazon bought Souq.com in 2017 to become the biggest e-commerce platform in the region at that time, and its recent announcement to launch a new marketplace here will no doubt ramp up the level of online competition.

Noon.com, a local online retail start-up backed by Saudi Arabia's sovereign wealth fund, has partnered with eBay this year and offers a platform for local and international franchise brands to sell online without them having to invest in their own e-commerce presence in the region.

Creating a multi channel experience that includes online is a priority for all the retail CEOs we spoke to. They are committed to continuous investment in their digital channels; this investment should not only provide another way to reach consumers, it should build on the experiences retailers provide to their customers.

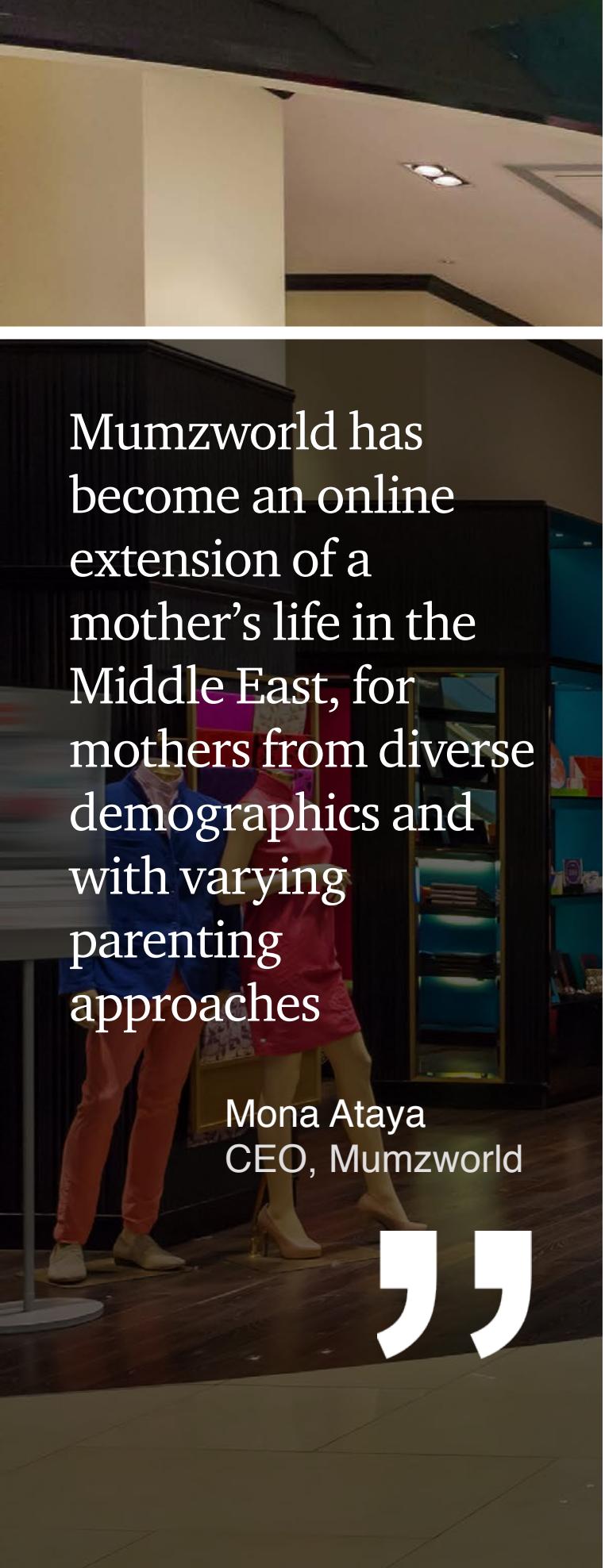
Mumzworld is a growing Middle East online-only retailer that has built its business by providing a full range of products for mothers and babies, some not available anywhere else in the region, at competitive prices. Its website also hosts an online community where parents can come together to share their experiences, building a different kind of customer relationship. This year the company aims to expand its online customer community and to focus on offering the best value while customers remain price sensitive.

Noon.com offer a platform to sell online for local and international brands that do not have their own e-commerce presence in the region



<sup>1</sup> International Monetary Fund - Opportunity for All, Promoting Growth and Inclusiveness in the Middle East and North Africa

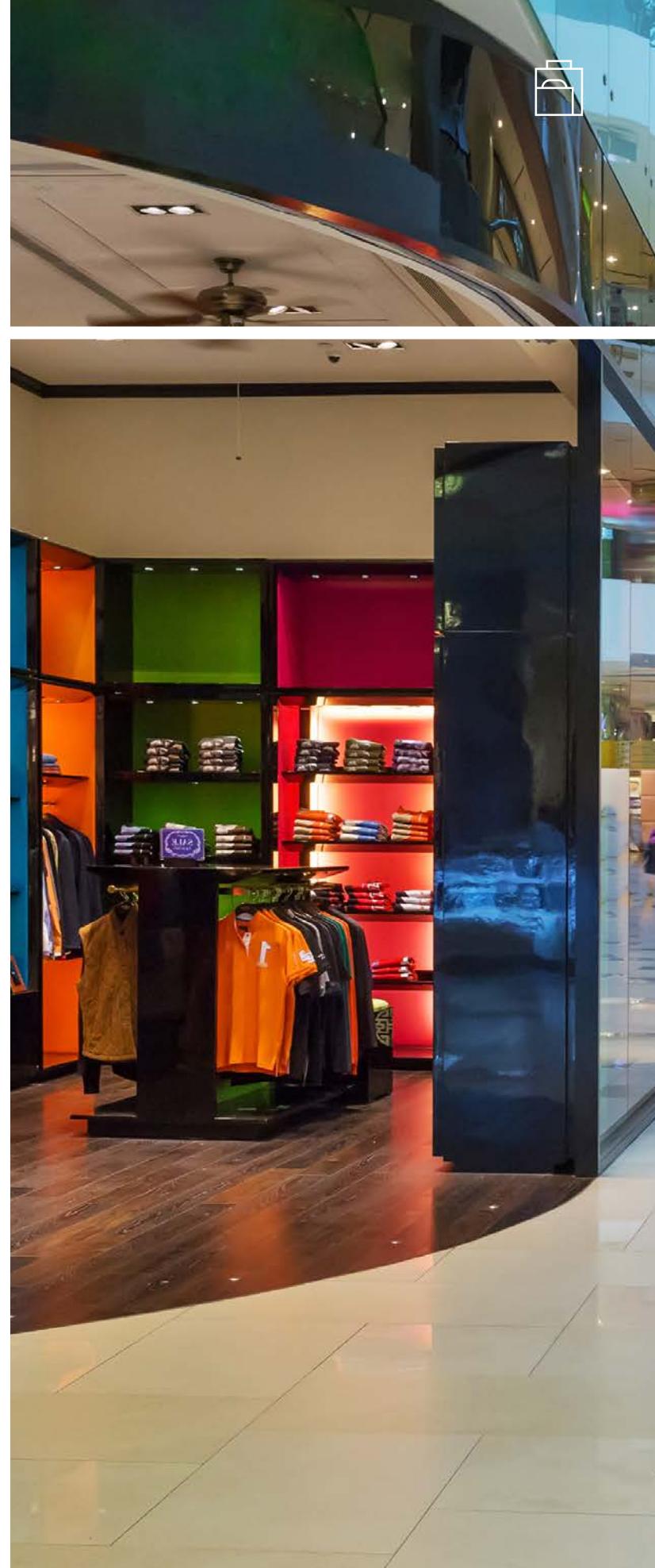
<sup>2</sup> GSMA - The Mobile Economy, Middle East and North Africa 2018



Mumzworld has become an online extension of a mother's life in the Middle East, for mothers from diverse demographics and with varying parenting approaches

Mona Ataya  
CEO, Mumzworld

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## Key issues retail CEOs identified around technological change

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Challenges around the lack of **digital talent** in the market, including recruitment of people with data analytics and artificial intelligence skills. This is part of a broader issue in the region with more than a quarter of Middle Eastern CEOs across all sectors believe hiring outside of their industry is a potential solution to address the skills gap.



**Delivery and logistics** continues to be a challenge for some retailers. While service is improving, change is happening slowly. Same-day delivery is no longer something that can be ignored as some retailers are delivering orders purchased online within 2-4 hours. We are also seeing some retailers investing in local logistics firms to improve their customer journey and create a competitive advantage.



Retailers urgently need to pursue **technological solutions** to allow consumers quick and easy return options for unwanted goods bought online.



**Managing stock** and the volume of products to buy is a challenge when an excess of supply is available online.



**Online copycats:** replica items or designs are being sold online for a fraction of the price, creating price wars and undermining quality.



**Customers seeking greater value** are opting to use delivery platforms such as Aramex's 'shop and ship' to purchase the same item outside of the Middle East more cheaply.



**Keeping pace with changing demands:** mobile access to online information such as new product offerings, product reviews and price comparison sites continue to influence customers' buying decisions and retailers need to be on their toes, monitoring these trends to stay relevant.





# What's trending?

Hybrid retail has created an empowered consumer: they know what they want, where they can get it and how much they can get it for. As a result, loyalty is diminishing, making it more difficult and somewhat expensive to retain customers. Value is also becoming an incredibly important trend in the region.

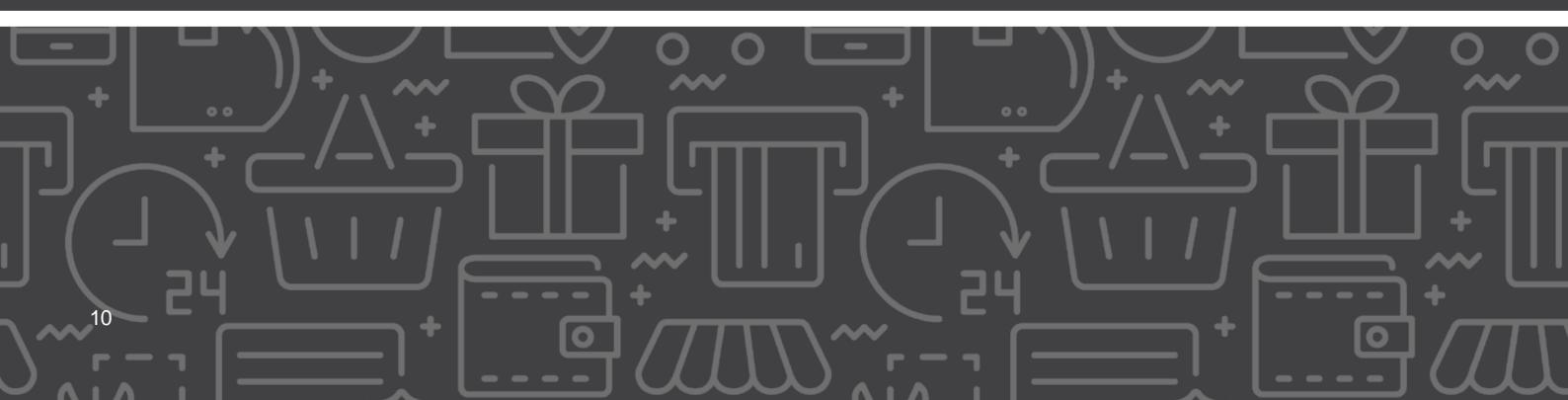
How are regional retail CEOs responding to these changes? One answer is to create a more vibrant experience within physical stores. Chalhoub Group, for example, is working to reduce 'pain points', such as arriving at a store and finding products out of stock, by focusing on the hybrid journey – i.e. making it simple for people to order or reserve a product online and collect it in-store. The company's Greenhouse accelerator programme is an opportunity to support entrepreneurship and answer the retail challenges by bringing tech solutions to the brands.

Our 2019 Global Consumer Insights Survey, to be published in March 2019, highlights the need for companies to focus on “return on experience” (ROX) as well as the longstanding measure of return on investment (ROI). The experience customers have in a store or using the company’s website, and the feedback they share online, now affects the buying decisions of all its other potential customers too. Some 32% of survey respondents said they bought a product because of positive reviews on social media.

Notable growth areas in the Middle East, according to the retail CEOs surveyed, include expansion in the beauty sector, driven by the era of the social-media influencer, 'ath-leisure' (wearing workout clothes outside the gym) and healthy eating, spurred by millennial interest in wellness.

Another trend having an impact is Black Friday discounting. The November sales event, which began in the US, is becoming more and more popular with Middle East consumers. Mumzworld said it had its best week of the year in the Black Friday period, with revenue growth five times higher than the year before. Yet the event is creating unpredictability for some retailers as consumers tend to hold off spending until they see what mega discounts or promotions are on offer, resulting in an knock on effect to December sales.

Building a sustainable business for the future also means prudence, according to most of the retail CEOs interviewed. There is a need to focus on cash flows and optimise costs – one retailer we interviewed has opened a shared service centre in Jordan to manage its back-office and staff costs. With few stores showing like-for-like growth in revenue, some retailers are looking into new markets and new investment opportunities outside the region to help them continue to expand their portfolio.





The key learning is that bricks-and-mortar is still very strong in the region – the brands that focus on customer experience coupled with newness and innovation in products and services will always win

Hisham Al Amoudi  
CEO, Koj Group

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## Other trends impacting retail CEOs



The retail market in the Middle East is heavily reliant on the franchisee model, however as the market matures the **joint venture** model may become a more attractive option. One retail CEO said the shared risk allows both parties to have more control of the business while continuing to invest and grow in the region.



Food is becoming an intrinsic part of people's experience in malls and good restaurants are a reason to pick one over another. Malls as well as individual stores must offer a **complete shopping experience**, not just a place to shop and escape the heat.



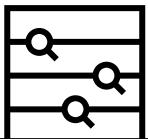
Smaller '**community**' **malls** are becoming increasingly popular as places to buy groceries, have lunch, go to the pharmacy and buy a child's birthday present, all under one roof.



Traditional loyalty cards are becoming less relevant – instead, retail CEOs are seeing **loyalty to trends** rather than brands. That said, having exclusive access to private events and discounts remain attractive to bricks-and-mortar consumers in the region.



Some retailers, such as Noon.com with the introduction of Noon East, are investing in **private label** and **white labelling** to help deliver better margins in a more price-sensitive market.



# Macro influences

Economic and social reforms in the Middle East are “moving at an unprecedented pace”, as our Global CEO Survey notes. Retailers have also weathered the impact of an oil price slump and now partial recovery, and geopolitical threats in parts of the region. These macro factors contribute to the following issues highlighted by the retail CEOs in our survey:

## Tax

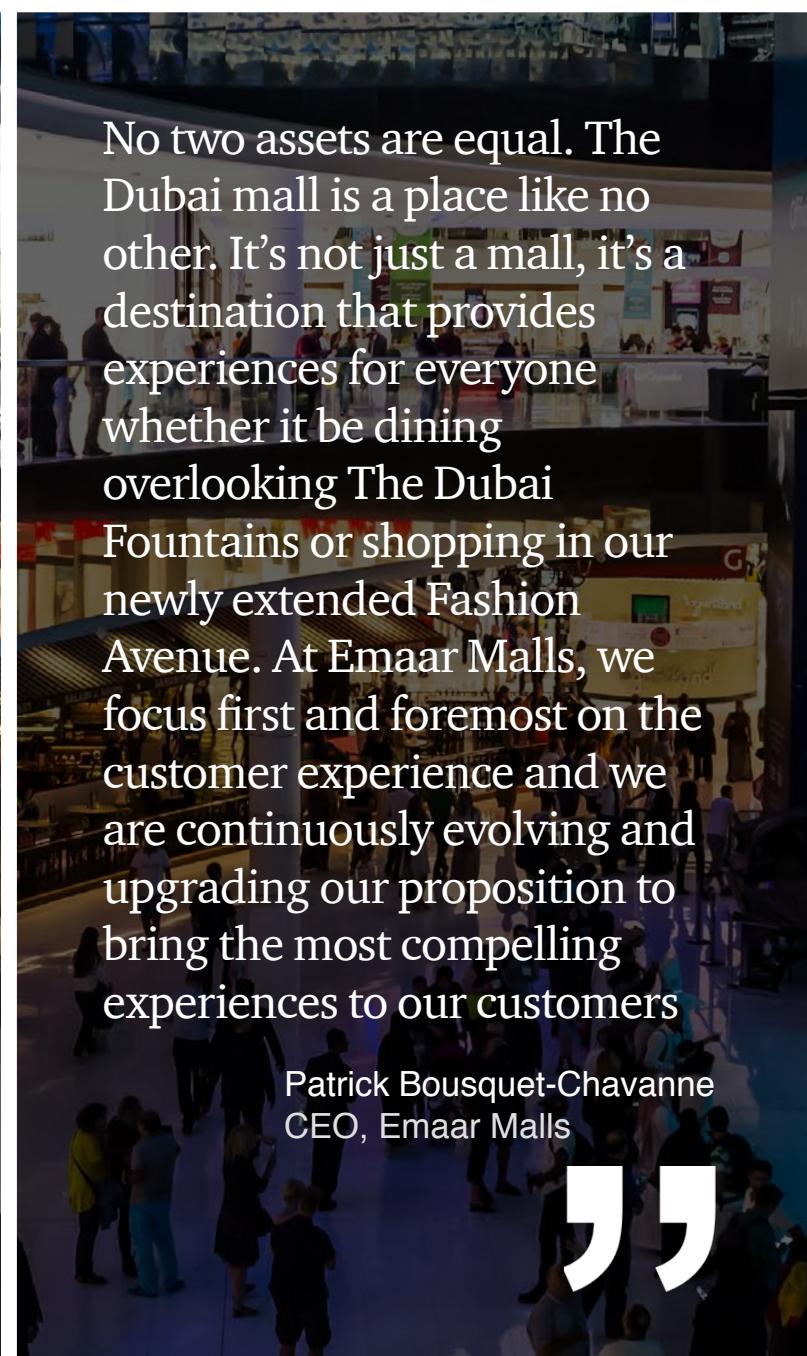
The UAE and KSA both introduced VAT at 5% for the first time on January 1, 2018; Bahrain did so on January 1 this year, with Qatar and Oman due to follow. According to the latest Middle East CEO Survey, the number of CEOs in the region concerned about increasing tax burdens fell to 55% from 85% the previous year. For the retailers we surveyed, they acknowledge it is a cost they simply have to accept – some absorbed it at the beginning while others compensated with cost benefits from reorganising their supply chain. However, they all acknowledged its direct impact on consumers’ level of disposable income.

## Talent

‘Saudization’, the policy of setting a legal limit on the number of foreign workers employed in KSA companies, was a rapid change that continues to challenge the retail sector, which employs many foreign nationals. But some have taken it in their stride – Saudi retailer Koj Group, which has brands such as Nayomi, The Body Shop, Mikyajy and Early Learning Centre in its portfolio, has invested in Saudi Arabia over the past 10 years and already has a programme for hiring and training local people to work in its stores there.

Beyond the unique circumstances in the Kingdom of Saudi Arabia, across the region all our respondents placed a high value on recruiting digitally oriented candidates. Data analysis skills, to glean insights into customer shopping behaviours from the millions of transactions carried out each year, were particularly mentioned.





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## Rent prices

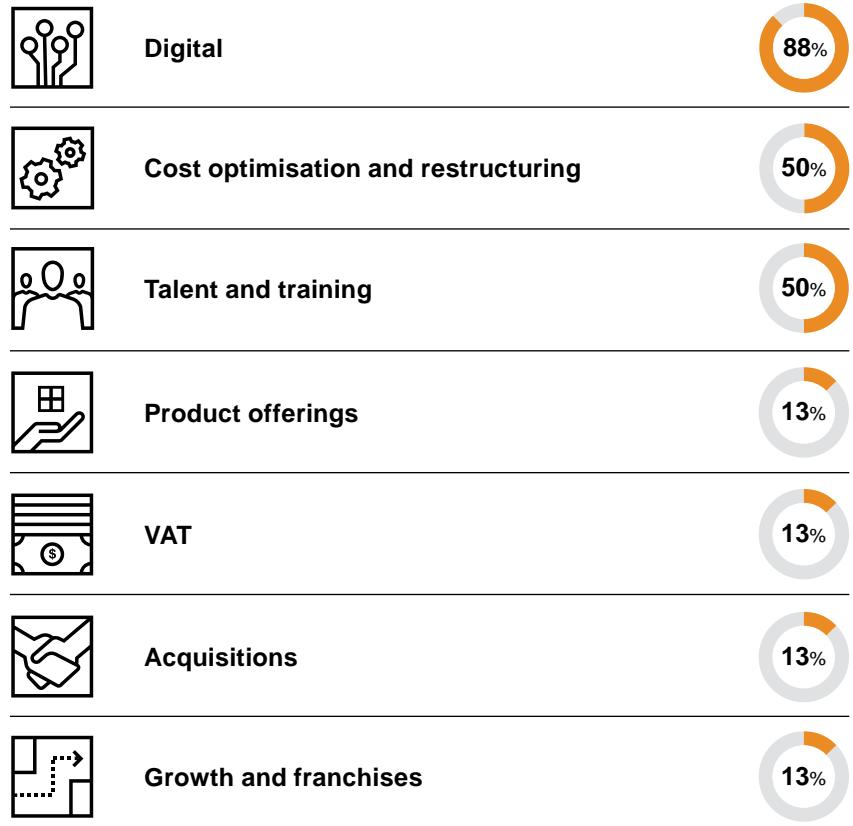
Most of the UAE retailers we spoke to agreed that mall operators need to look carefully at rental prices, as it was felt current operating models are not viable because rents are too high. One retail CEO said, "The need to continue to open several stores in every 'new' mall has tapered down materially." With the continued development of new malls, retailers can be choosy with their investments and decide where they think they will see the greatest footfall.

One retailer we spoke to said that given the macro environment and continued online pressure, landlords are working with retailers, offering incentives to entice certain brands in to malls to maximise store space and occupancy rates.

However, market-leading mall operators such as Emaar continue to grow their gross leasable area and are confident of forward demand for quality assets. Forward rental costs have increased historically based on revenue growth and inflation and other local government costs. Now, everyone is looking at productivity per square metre and while historical rents may not be sustainable as the macro-economic context has changed, mall operators believe, in general, rents are fairly priced at around 15-20%. However, this depends entirely on the asset age, location or experience provided - and that is what retailers need to consider.



### Key priorities for Middle East retail CEOs



# Conclusion

The three top priorities for the retail CEOs in our survey are digital (88%), followed by cost optimisation and restructuring (50%), then talent and training (50%).

As one retail CEO highlighted, “competition is coming from everywhere” – the region’s retailers are now battling global e-commerce sites, social sellers and influencers, as well as rival stores, to win sales and brand loyalty. As a result, there is no five-year plan, companies must be continually ready to respond to change.

Better last-mile logistics to meet customer demand for fast, flexible deliveries to (and returns from) a convenient location at a reasonable price is also a crucial part of broadening e-commerce in the region. PwC’s 2018 Global Consumer Insights Survey highlights approaches taken in more mature online shopping markets, such as delivery by drone to remote parts of the UK or package collection from lockers in Germany. Amazon has even trialled enabling delivery people to access customers’ homes when they are out, using a smart lock and camera to leave the package securely inside.

Retail CEOs in the region are very aware that digital transformation requires new kinds of talent – traditional bricks-and-mortar retailers and mall operators we spoke to have hired data scientists skilled in gathering and analysing the vast amount of data generated by sales online (and offline) in order to offer the most personalised experience and best value to customers.

Following several years of a tough macro-economic environment in the region, retailers are also scrutinising every opportunity closely and trying to keep the organisation as lean as possible. “We are choosing our battles well and we’re not scared to close down a store [which is not profitable enough],” one retail CEO told us.

The response to our retail CEO survey makes clear that Middle Eastern retailers want to build sustainable businesses for the future; this means retailers embracing the hybrid retail model by providing a fully integrated and seamless experience through all touchpoints of the consumer journey.



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