Retailers and the Age of Disruption

Total Retail - Middle East (ME) highlights

78% of ME consumers purchase directly from manufacturers vs **55%** last year

72% of ME consumers made their first online purchase within the past two years

40% of ME consumers consider security to be their main concern when using smartphone retailing

63% of ME consumers are willing to pay for same-day delivery

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Global and Regional Findings

Our annual global consumer survey now covers more than 19,000 respondents in 19 territories on six continents. In the Middle East (ME), 1,001 individuals were surveyed across the UAE, Saudi Arabia and Egypt.

It is evident from our respondents there are four key areas of disruption facing every retailer regardless of where they operate.

Key disruptors

1 The evolving role of the store

If there was ever an institution that has proven historically "powerful, long-lived and adaptable," it is the store. As shopkeepers and shops have been around for centuries, it's a pretty safe bet, mobile apps or not, that stores will still be around in familiar forms for at least the next few decades. In the ME, this is perhaps even more powerful when we consider the strong role of the Mall as a 'go-to' destination in its own right. But are stores strong in their own right, or is it because other channels such as online are relatively immature in this region?

***53% of ME consumers** prefer in-store shopping as they can "see, touch and try" the products*

2 Mobile phone technology

Mobile devices have become critical for pre-payment activities. Mobile penetration in our three ME countries are amongst the highest in the world, but the proliferation of online and mobile shopping has not kept pace. Here in the region however when it comes to consumer confidence, the smart phone still has a long way to go. Today, the smart phone is more of an instrument for getting to the point of buying a product rather than a tool for actual purchase.

***47% of all global consumers** indicated that they have used a mobile device to make a purchase during the previous year, compared to 30% two years ago*

3 Proliferation of social networks

Social media is a crucial link between shoppers and retail brands. Retailers can now make the link between social media investment and consumer purchasing. In the ME, the penetration of social media creates a huge, and as yet, relatively untapped opportunity for the regions retailers and global brands.

***62% of global vs 75% of ME consumers** believe that their interactions with brands on social media result in them purchasing more from their favorite brands*

4 Global demographic shifts

Megatrends are changing the retail landscape and consumer spending preference. Across our three ME countries, we have not only exploding populations numbers, but a population that is massively urbanised and with a growing youth profile. Digital natives stand ready to interact with retailers via social media but so far the digital natives have been browsers and only the older generations are transacting.

A digital native is the 18 - 24 year old set of survey respondents

Middle East Trends

The global survey also covered the Middle East, focusing on the UAE, Saudi Arabia, and Egypt. The key learnings from the survey, our knowledge of the retail market and key players, as well as discussions with various retailers, highlight the following key factors that should be incorporated into retailers' future strategy.

74% of ME vs 93% global consumers now shop online

Online purchasing is an emerging trend not without its own challenges

Despite the many different challenges of Middle East retailers having an online platform, our survey findings suggest there is clearly a growing desire from consumers to be able to browse and purchase items from a local online platform. This is in addition to the increasing preference to use social media to connect with brand preferences, as well as seek out new brands.

Consumers cite the increased convenience of browsing online, the lower prices realised when bypassing retailers and the convenient delivery options offered by a number of online retailers as reasons why they shop online. Having the option to return items would add value to consumers' online shopping experience.

40% of ME consumers note that security is their main concern when shopping on their smartphones compared to 33% globally

However, a large portion of Middle East consumers have concerns about the security of online shopping. This is especially evident for smartphone users, where 40% of survey respondents expressed that the main reason they don't use their phones for shopping is security. A large portion of respondents indicated that they had broadband connectivity issues preventing them from accessing online stores from their phones, such as a lack of a data plan or Wi-Fi connectivity.

71 % of ME consumers prefer to shop in-store for groceries compared to 28% who shop in-store for books, music, movies and video games

Consumers continue to shop in-store

Nonetheless, the global and ME data suggests that the retail store isn't going anywhere. More than half of global and ME respondents indicated that they still shop in-store. In ME every retail category apart from "books, music, movies and video games" (28%) and "toys" (36%), still prefer to buy goods at a traditional retailer.

Therefore the store remains the retail touch point with the highest frequency (ie. highest purchases). And our report tells us consumers like to shop in-store. But perhaps more intriguing is the question of why people shop in store – is it because they don't trust online shopping, that the mobile offerings of much of our regions retails are relatively weak?

37% of ME consumers prefer immediate delivery for all their purchases made in-store compared to 50% globally

Immediate delivery and the ability to touch, see and try are the main reasons for customers remaining loyal to shopping in-store. Whilst the reason of 'immediate delivery' has slightly increased from 2013 for the Middle East shopper, global respondents hold immediate delivery much higher in their reasons for in-store shopping.

Consumers in the Middle East require less in-store technologies to make their shopping experience better. Social media however has a more profound effect on consumer spending habits in the ME than globally

Implications for retailers

Consumers are developing their own approach to researching and purchasing both online and in-store. Retailers need to find a way to minimize uncertainty and inflexibility, and maximize efficiency, security, convenience of the overall shopping experience through the development of an advance multi-channel platform.

In addition to the disruptors which can be thought of as a business model evolution (the evolving role of the store), technological (both mobile technology and social networks) and socioeconomic (demographic shifts), the Middle East retailer needs to consider the following:

- **Payment security** - Consumers must be made to feel that their personal details are secure. Retailers need to allow for cash on delivery options to address demand in the region.
- **Logistics** - Logistical issues need to considered, which can include lack of an address system in certain countries and the need to use third party services for home delivery. The retailer with an existing multi-channel offering will be able to supplement their own network to minimize their costs.
- **Rights for online shopping** - The industry in the ME is predominantly based on a franchise or joint venture model and retailers need to gain rights for the online channel and compete with global websites as well as local multi brand websites.
- **A mobile platform** – The ME is behind in regards to online platforms. Initially, sites created by the retailer did not take into account compatibility with mobile and smart tablets. Retailers need to consider all online platforms in their effort to provide the consumer with an efficient online experience.

Accordingly, achieving 'total' retail demands thinking beyond the channels.

Retail & Consumer Contacts

Norma Taki
Partner
M: +971 56 682 0602
E: norma.taki@ae.pwc.com

Imad Matar
Partner
M:+966 55 776 8632
E: imad.matar@sa.pwc.com

Dr Anil Khurana
Partner
M: +971 50 8836369
E: anil.khurana@ae.pwc.com

Wasim Kamhawi
Director
M:+971 56 682 0563
E: wasim.kamhawi@ae.pwc.com

Sharat Seth
Partner
M: +971 50 653 8234
E: sharat.seth@ae.pwc.com

Leo Vera
Director
M: +971 50 900 3582
E: leonardo.vera@ae.pwc.com

PwC will release a more in-depth Total Retail report discussing in detail the Middle East findings of our annual consumer survey.

Our approach

PwC administered a global survey to understand and compare consumer shopping behaviors and the use of different retails channels across 19 different territories: Australia, Belgium, Brazil, Canada, China, Chile, Denmark, Hong Kong, Germany, India, Italy, Japan, Middle East, Russia, South Africa, Switzerland, Turkey, UK and the US. PwC conducted 19,068 online interviews during August and September 2014. We also interviewed numerous retail executives, as well as executives from other industries, for inclusion in this report.